

ROWLAND WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2013 AND 2012

ROWLAND WATER DISTRICT

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June 30, 2013 and 2012

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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 Rowland Water District (the District), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rowland Water District as of June 30, 2013 and 2012 and the changes in financial position and cash flows for the years 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 Note 1d to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* for the year ended June 30, 2013. The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1d to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities for the year ended June 30, 2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. The adoption of this standard required retrospective application resulting in a \$294,390 reduction of previously reported net position to remove unamortized bond issuance costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 on them.

Other Matters (Continued)

Other Information

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

The schedules of other operating expenses and schedules 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 schedules of other operating expenses and schedules 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 November 12, 2013, 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 District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
November 12, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2013

- The District's total net position decreased by \$1,507,637 or 2.47 percent
- During the year, the District's total revenues increased to \$19,675,001 or 13.68 percent, and total expenses increased to \$21,511,277 or 13.57 percent

Fiscal Year 2012 (As Restated)

- The District's total net position decreased by \$696,340 or 1.10 percent.
- During the year, the District's total revenues increased to \$17,307,184 or 5.44 percent, and total expenses increased to \$18,592,478 or 9.00 percent.
- Capital Assets, net of related debt increased to \$42,145,449 or 0.21 percent over last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statements of Net 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, 2013

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 2013	Fiscal Year 2012 (As Restated)	Dollar Change	Fiscal Year 2011	Dollar Change
Assets:					
Current, restricted and other assets	\$ 46,107,903	\$ 24,229,635	\$ 21,878,268	\$ 24,568,109	\$ (338,474)
Capital assets	60,182,455	61,698,032	(1,515,577)	61,887,095	(189,063)
Total Assets	<u>106,290,358</u>	<u>85,927,667</u>	<u>20,362,691</u>	<u>86,455,204</u>	<u>(527,537)</u>
Liabilities:					
Current liabilities	4,119,390	2,905,496	1,213,894	2,731,921	173,575
Noncurrent liabilities	41,040,623	20,384,189	20,656,434	20,388,961	(4,772)
Total Liabilities	<u>45,160,013</u>	<u>23,289,685</u>	<u>21,870,328</u>	<u>23,120,882</u>	<u>168,803</u>
Net Position:					
Net investment in capital assets	40,923,787	42,145,449	(1,221,662)	42,055,597	89,852
Restricted	2,638,352	1,524,688	1,113,664	1,524,743	(55)
Unrestricted	17,568,206	18,967,845	(1,399,639)	19,753,982	(786,137)
Total Net Position	<u>\$ 61,130,345</u>	<u>\$ 62,637,982</u>	<u>\$ (1,507,637)</u>	<u>\$ 63,334,322</u>	<u>\$ (696,340)</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

NET POSITION (CONTINUED)

As can be seen from Table 1, total assets increased \$20,362,691 from fiscal year 2012 to 2013. The increase comes from current, restricted and other assets that saw a \$21,878,268 or 90.30% increase from fiscal year 2012. This increase was caused by the 2012 Puente Basin Water Agency Revenue Bond. These funds will be used to upgrade facilities and for other projects that will help reduce the District's reliability on imported water sources. Rowland Water District in conjunction with the Puente Basin Water Agency (PBWA) also purchased 182.5 acre feet of water rights in the Central Basin. The Central Basin is located in the South Bay Area of Southern California. It consists of the City of Whittier and continues south to Long Beach. It also encompasses the eastern borders of the Norwalk and Downey Areas. The District's cost for the water rights was \$1,491,025. The District also purchased 2000 acre feet of Cyclic Storage Water that is being stored in the Main San Gabriel Basin. The Main San Gabriel Basin is located in the San Gabriel Valley in Southern California and encompasses the City of La Verne and includes areas east to Monterey Park. The Cyclic Storage Water was purchased at a cost of \$560 per acre foot for a total cost of \$1,120,000. This was the majority of the decrease in total assets for the fiscal year.

When construction projects are completed, they are subsequently capitalized and become depreciating assets. Large projects completed during fiscal year 2013 included:

Sentous Rehabilitation

Rowland Water District determined through visual inspections that Sentous Vault was in need of complete interior electrical systems rehabilitation. A & B Electric was authorized to make the necessary repairs and upgrades after providing the District with a proposal. Electrical work consisted of all new conduit & wire, installation of an additional pressure transmitter, three (3) new flow meters, humidistat controlled fan with Hand-Off-Auto switch, new lighting, and control upgrades. Additionally, District staff was utilized to perform maintenance/repairs to the three (3) existing Claval flow control valves located within the facility.

The Sentous Vault is a critical system component that is imperative to keep in full operational order. The work performed during this rehabilitation was designed to increase the production life of the facility, and increase the systems reliability and productivity. Steps were taken to ensure the new components would surpass their life expectancy, providing the District with years of productive and reliable service with minimal upkeep.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

NET POSITION (CONTINUED)

Large projects completed during fiscal year 2013 included (Continued):

Walnut Creek Energy Park

The Walnut Creek Energy Park is a 500 megawatt power plant constructed in the Rowland Water District Service area. Officially commissioned in May 2013, the five natural gas fired turbines generate electric power during peak demand periods and are cooled by recycled water sources supplied by the District. Although designed for seasonal demands, the plant will operate within defined periods throughout the year and use approximately 200 acre-feet per year.

Lease of Central Basin Groundwater Rights

To facilitate groundwater projects developed by the Puente Basin Water Agency (PBWA consists of Rowland Water District and Walnut Valley Water District), the PBWA entered into a five-year (July 1, 2013 to June 30, 2018), lease of 306 acre feet of groundwater rights at a non-escalating rate of \$150 per acre foot. The Central Basin groundwater rights are held by Bellflower Home Garden Water Company and terms of the lease call for a lump sum lease payment of \$229,500.00.

A further review shows total liabilities increased by \$21,870,328 or 93.91% from fiscal year 2012 to 2013. The majority of that increase was due to the Puente Basin Water Agency issuing \$19,835,000 in water revenue bonds, 2012 series A in order to finance the acquisition of certain water system improvements of Rowland Water District and entities that will help Rowland Water District reduce its future dependence on imported water.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2013	Fiscal Year 2012 (As Restated)	Dollar Change	Fiscal Year 2011	Dollar Change
Revenues:					
Operating revenues	\$ 18,862,463	\$ 16,354,144	\$ 2,508,319	\$ 15,675,202	\$ 678,942
Nonoperating revenues	812,538	953,040	(140,502)	739,389	213,651
Total Revenues	<u>19,675,001</u>	<u>17,307,184</u>	<u>2,367,817</u>	<u>16,414,591</u>	<u>892,593</u>
Expenses:					
Operating expenses	19,278,221	17,270,674	2,007,547	16,006,547	1,264,127
Nonoperating expenses	<u>2,233,056</u>	<u>1,321,804</u>	<u>911,252</u>	<u>1,050,119</u>	<u>271,685</u>
Total Expenses	<u>21,511,277</u>	<u>18,592,478</u>	<u>2,918,799</u>	<u>17,056,666</u>	<u>1,535,812</u>
Income (loss) before Capital Contributions	(1,836,276)	(1,285,294)	(550,982)	(642,075)	(643,219)
Capital contributions	<u>328,639</u>	<u>164,056</u>	<u>164,583</u>	<u>237,776</u>	<u>(73,720)</u>
Change in Net Position	(1,507,637)	(1,121,238)	(386,399)	(404,299)	(716,939)
Beginning Net Position, as Restated	<u>62,637,982</u>	<u>63,759,220</u>	<u>(1,121,238)</u>	<u>63,738,621</u>	<u>20,599</u>
Ending Net Position, as Restated	<u>\$ 61,130,345</u>	<u>\$ 62,637,982</u>	<u>\$ (1,507,637)</u>	<u>\$ 63,334,322</u>	<u>\$ (696,340)</u>

While the Statement of Net Position shows 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, Loss before Capital Contributions of \$(1,836,276) and Capital Contributions of \$328,639 resulted in a decrease in ending net position of \$(1,507,637) or an increase of 34.46% in fiscal year 2013.

A closer examination of the source of changes in Net Position reveals that the District's total revenues increased by \$2,367,917 or 13.68% in fiscal year 2013. Of this amount, operating revenues increased by \$2,508,319 or 15.34% and its nonoperating revenues decreased by \$140,502 or 14.74% in the past fiscal year.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2013

NET POSITION (CONTINUED)

The main factor attributing to the increase in operating revenues was an increase in the water rate and service charge that became effective on January 1, 2013. The base rate increase \$0.22 from \$2.30 to \$2.52 or 9.57%. Water use over 16 hcf is paid at a higher rate. The monthly service charge for standard 5/8" to 3/4" meters increased \$4.22 from \$19.31 to \$23.52 or 21.85%. The District continues to use conservation rates that were initially implemented in January, 2009. The conservation rates as of January, 2013 were a base rate of \$2.52 for 1-16 hcf, \$2.90 for 17-23 hcf, and \$3.65 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 cost is added to the base rate if the property resides in Zone 2 through Zone 6.

Nonoperating revenues decreased significantly in 2013. The main reason for this was an increase in interest expense due to the 2012 Puente Basin Water Agency issuing water revenue bonds for use by Rowland Water District. Interest Expense increased by \$457,743 or 40.55% over the past fiscal year. The District also incurred \$233,778 in debt issuance costs. The District had unrestricted cash and investments totaling \$17,568,206, ending the fiscal year, a decrease of \$1,399,639 from 2012. This decrease caused a reduction in interest and dividend income along with a continual declining interest rate environment. The District's cash and investments are held in cash, short-term 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 reduced from 0.36% ended fiscal year 2012 to 0.24% ended fiscal year 2013. Realized and unrealized loss on investments increased \$(219,212) or 124.51%. This is a decrease in the value of the District's bond portfolio as new issues are purchased at lower interest rates. This causes the value of the portfolio to decrease as lowering yielding securities replace higher yielding ones in times of declining interest rates. It is important to note that this is a reduction in the unrealized gain or book value of the portfolio only.

Total operating revenues increased by \$2,508,319 or 15.34% while operating expenses increased by 11.62%. This resulted in an operating loss of \$415,758.00 in fiscal year 2013. While the District saw total water sales revenue increase by \$1,751,424 or 15.30% from fiscal year 2012, Source of Supply costs increased \$1,079,920 or 12.06% from fiscal year 2012. Source of Supply includes the cost of potable and reclaimed water along with MWD and TVMWD fixed charges. The average cost of an acre foot of water increased 7.06% from \$793 in 2012 to \$849 in 2013. Fixed charges remained consistent from fiscal year 2012 to 2013. General and administrative expense saw an increase of \$481,707 or 12.80%. The majority of this increase comes from pension plan contributions and service charges. In 2013, the District paid off its CalPERS side fund of approximately \$384,000. CalPERS charged 7.50% interest on this fund and the District reserves are yielding approximately 1.00%. By eliminating this, the District employer contribution rate to CalPERS was reduced from 17.677% to 14.660% in fiscal year 2013-2014. Service charges and office supplies and expenses saw increases due to licensing fees for District software programs such as CIP Planner, CMMS, and additional computer hardware and software support for these additional systems. Also, bank charges increased due to additional trustee and management fees to support the 2012 revenue bond. Depreciation expense for fiscal year 2013 was \$2,211,497. It is important to note that depreciation expense is the yearly accumulated depreciation on the District capital assets, not an amount paid directly by the District for the cost of the depreciated assets. The District does continue to fund 85% of depreciation through its rates and charges.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

BUDGETARY HIGHLIGHTS

**TABLE 3
Budget vs. Actual**

	Fiscal Year 2013		
	Actual	Budget	Variance
Revenues:			
Operating revenues	\$ 18,862,463	\$ 17,220,000	\$ 1,642,463
Nonoperating revenues	812,538	600,000	212,538
Total Revenues	<u>19,675,001</u>	<u>17,820,000</u>	<u>1,855,001</u>
Expenses:			
Operating Expenses:			
Source of supply	10,033,145	9,765,000	(268,145)
Pumping and power	845,228	850,000	4,772
Transmission and distribution	1,518,173	1,090,000	(428,173)
Customer services	122,420	165,000	42,580
Depreciation expenses	2,211,497	1,855,000	(356,497)
Other operating expenses	301,870	265,000	(36,870)
General and administrative expenses	4,245,888	3,938,000	(307,888)
Total Operating Expenses	<u>19,278,221</u>	<u>17,928,000</u>	<u>(1,350,221)</u>
Nonoperating expenses	<u>2,233,056</u>	<u>1,500,000</u>	<u>(733,056)</u>
Total Expenses	<u>21,511,277</u>	<u>19,428,000</u>	<u>(2,083,277)</u>
Change in Net Position	<u>\$ (1,836,276)</u>	<u>\$ (1,608,000)</u>	<u>\$ (228,276)</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 \$(228,276) or 14.20%. Total Revenues shows a positive variance of \$1,855,001 or 10.41% from actual.

Total operating expenses saw a negative variance of \$1,305,221 or 7.53%. Nonoperating expenses saw a negative variance of \$733,056 or 48.87% from actual. These expenses account for the interest expense and the amortization expense bond issuance cost associated with the 2012 Puente Basin Water Agency Revenue Bond and interest expense on the 2008 Recycled Water Certificate of Participation. Total expenses showed a 9.68% variance above the budgeted amount.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2013, the District had invested \$63,167,918 in a broad range of infrastructure as shown in Table 4.

**TABLE 4
Capital Assets**

	Fiscal Year 2013	Fiscal Year 2012 (As Restated)	Dollar Change	Fiscal Year 2011	Dollar Change
Capital assets, not being depreciated:					
Land	\$ 261,340	\$ 261,340	\$ -	\$ 261,340	\$ -
Water rights	5,000	5,000	-	5,000	-
Construction in progress	1,016,046	3,103,632	(2,087,586)	2,704,517	399,115
Total capital assets, not being depreciated	<u>1,282,386</u>	<u>3,369,972</u>	<u>(2,087,586)</u>	<u>2,970,857</u>	<u>399,115</u>
Capital assets, being depreciated:					
Intangible plant	1,022,551	877,484	145,067	810,935	66,549
Sources of supply plant	2,058,703	1,998,543	60,160	1,767,023	231,520
Pumping plant	10,037,819	10,037,819	-	10,037,819	-
Transmission and distribution plant	62,575,537	60,363,747	2,211,790	59,216,182	1,147,565
Telemetry equipment	1,354,235	1,332,302	21,933	1,332,302	-
General plant	550,403	550,403	-	550,403	-
Office building and equipment	4,544,906	4,321,686	223,220	4,231,305	90,381
Transportation equipment	769,259	647,923	121,336	651,690	(3,767)
Communication equipment	133,902	133,902	-	133,902	-
Total capital assets, being depreciated	<u>83,047,315</u>	<u>80,263,809</u>	<u>2,783,506</u>	<u>78,731,561</u>	<u>1,532,248</u>
Less accumulated depreciation	<u>(24,147,246)</u>	<u>(21,935,749)</u>	<u>(2,211,497)</u>	<u>(19,815,323)</u>	<u>(2,120,426)</u>
Total capital assets, being depreciated, net	<u>58,900,069</u>	<u>58,328,060</u>	<u>572,009</u>	<u>58,916,238</u>	<u>(588,178)</u>
Total capital assets, net	<u>\$ 60,182,455</u>	<u>\$ 61,698,032</u>	<u>\$(1,515,577)</u>	<u>\$ 61,887,095</u>	<u>\$ (189,063)</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, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

At the end of fiscal year 2013, the District had noncurrent liabilities totaling \$20,684,189 as shown in Table 5.

TABLE 5
Noncurrent Liabilities

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Fiscal Year 2011	Dollar Change
Certificates of Participation, net	\$ 19,258,668	\$ 19,552,583	\$ (293,915)	\$ 19,831,498	\$ (278,915)
Installment Purchase Contract payable, net	21,379,857	-	21,379,857	-	-
Compensated absences	323,778	321,351	2,427	337,858	(16,507)
Accrued net OPEB obligation	773,320	810,255	(36,935)	504,605	305,650
	<u>\$ 41,735,623</u>	<u>\$ 20,684,189</u>	<u>\$ 21,051,434</u>	<u>\$ 20,673,961</u>	<u>\$ 10,228</u>

The District currently has four sources of Noncurrent Liabilities in 2013. The Certificates of Participation (COP) issued in January 2009 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 school, 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 increase in compensated absences is attributed to more sick and vacation time being due to current employees. Compensated absences are District liabilities for accrued unpaid sick and vacation time. These liabilities would have to be paid at the employee's retirement or separation from service. Net OPEB obligations refer to Other Post Employment Benefits that would be owed to employees upon retirement. 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 7 - 9 and 12 of the notes to basic financial statements.

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

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 2013 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 2014 Budget vs. Fiscal Year 2013 Actual

	Fiscal Year 2013 Actual	Fiscal Year 2014 Budget	Variance
Revenues:			
Operating revenues	\$ 18,862,463	\$ 19,910,000	\$ 1,047,537
Nonoperating revenues	812,538	600,000	(212,538)
Total Revenues	<u>19,675,001</u>	<u>20,510,000</u>	<u>834,999</u>
Expenses:			
Operating Expenses:			
Source of supply	10,033,145	10,305,000	(271,855)
Pumping and power	845,228	875,000	(29,772)
Transmission and distribution	1,518,173	1,045,000	473,173
Customer services	122,420	115,000	7,420
Depreciation expenses	2,211,497	1,855,000	356,497
Other operating expenses	301,870	260,000	41,870
General and administrative expenses	4,245,888	3,807,000	438,888
Total Operating Expenses	<u>19,278,221</u>	<u>18,262,000</u>	<u>1,016,221</u>
Nonoperating expenses	<u>2,233,056</u>	<u>2,800,000</u>	<u>(566,944)</u>
Total Expenses	<u>21,511,277</u>	<u>21,062,000</u>	<u>449,277</u>
Change in Net Position	<u>\$ (1,836,276)</u>	<u>\$ (552,000)</u>	<u>\$ 1,284,276</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2013

CONTACTING THE DISTRICT'S FINANCIAL OFFICER

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

See independent auditors' report.

BASIC FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT
STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,150,166	\$ 814,890
Investments	14,313,673	14,949,372
Accounts receivable, net of allowance for doubtful accounts of \$30,000 for 2013 and 2012	2,809,546	2,465,670
Interest receivable	48,339	56,456
Supply inventories	139,378	143,595
Water in storage	2,475,537	1,355,537
Prepaid expenses	49,364	46,906
TOTAL CURRENT ASSETS	21,986,003	19,832,426
RESTRICTED ASSETS:		
Cash and cash equivalents	18,000,029	2,115,794
Investments	2,622,420	-
TOTAL RESTRICTED ASSETS	20,622,449	2,115,794
CAPITAL ASSETS:		
Capital assets, not being depreciated	1,282,386	3,369,972
Capital assets, being depreciated	83,047,315	80,263,809
Less accumulated depreciation	(24,147,246)	(21,935,749)
TOTAL CAPITAL ASSETS, NET	60,182,455	61,698,032
OTHER NONCURRENT ASSETS:		
Other receivable	806,236	-
Investment in joint ventures	2,693,215	2,281,415
TOTAL OTHER NONCURRENT ASSETS	3,499,451	2,281,415
TOTAL ASSETS	106,290,358	85,927,667

(Continued)

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

ROWLAND WATER DISTRICT

STATEMENTS OF NET POSITION
(CONTINUED)

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES:		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):		
Accounts payable	\$ 2,945,521	\$ 1,915,569
Interest payable	163,178	98,821
Current portion of certificates of participation	315,000	300,000
Current portion of installment purchase contract payable	380,000	-
	<u>3,803,699</u>	<u>2,314,390</u>
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Refundable customer deposits	176,465	159,409
Unearned Construction advances	139,226	431,697
	<u>315,691</u>	<u>591,106</u>
TOTAL CURRENT LIABILITIES	<u>4,119,390</u>	<u>2,905,496</u>
NONCURRENT LIABILITIES:		
Compensated absences	323,778	321,351
Accrued net OPEB obligation	773,320	810,255
Certificates of participation	19,258,668	19,552,583
Less: current portion	(315,000)	(300,000)
Installment purchase contract payable	21,379,857	-
Less: current portion	(380,000)	-
TOTAL NONCURRENT LIABILITIES	<u>41,040,623</u>	<u>20,384,189</u>
TOTAL LIABILITIES	<u>45,160,013</u>	<u>23,289,685</u>
NET POSITION:		
Net investment in capital assets	40,923,787	42,145,449
Restricted for debt service	2,638,352	1,524,688
Unrestricted	17,568,206	18,967,845
TOTAL NET POSITION	<u>\$ 61,130,345</u>	<u>\$ 62,637,982</u>

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

ROWLAND WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Water sales:		
Residential	\$ 7,484,513	\$ 6,566,375
Business	4,917,210	4,253,065
Public entities	207,454	162,548
Industrial	9,329	6,197
Reclaimed water	548,031	419,915
Other	29,275	35,658
	<u>13,195,812</u>	<u>11,443,758</u>
Water services:		
Water service charges	5,348,504	4,623,480
Nonrefundable new service fees	44,992	40,870
Reconnection fees	24,124	21,685
Customer penalties	189,591	191,129
Other	59,440	33,222
	<u>5,666,651</u>	<u>4,910,386</u>
TOTAL OPERATING REVENUES	<u>18,862,463</u>	<u>16,354,144</u>
OPERATING EXPENSES:		
Source of supply	10,033,145	8,953,225
Pumping and power	845,228	834,151
Transmission and distribution	1,518,173	1,005,971
Customer services	122,420	137,355
Depreciation expense	2,211,497	2,120,426
Other operating expenses	301,870	455,365
General and administrative expenses	4,245,888	3,764,181
	<u>19,278,221</u>	<u>17,270,674</u>
OPERATING LOSS	<u>(415,758)</u>	<u>(916,530)</u>

(Continued)

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

ROWLAND WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
(CONTINUED)

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income:		
Interest and dividend income	\$ 303,285	\$ 391,966
Realized and unrealized loss on investments	(395,276)	(176,064)
Property tax revenues	325,159	255,964
Gain on disposition of assets	-	26,128
Miscellaneous income	164,854	186,741
Interest expense	(1,586,698)	(1,128,955)
Debt issuance costs	(223,778)	-
Amortization of debt premium/(discount)	19,240	(16,785)
Income(loss) from investment in joint ventures	(27,304)	92,241
	<u>(1,420,518)</u>	<u>(368,764)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)		
	<u>(1,420,518)</u>	<u>(368,764)</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,836,276)	(1,285,294)
CAPITAL CONTRIBUTIONS:		
Contributions from developers	<u>328,639</u>	<u>164,056</u>
CHANGE IN NET POSITION	(1,507,637)	(1,121,238)
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>62,637,982</u>	<u>63,759,220</u>
NET POSITION - END OF YEAR	<u>\$ 61,130,345</u>	<u>\$ 62,637,982</u>

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

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 18,535,643	\$ 16,031,614
Cash payments to suppliers for goods and services	(15,726,807)	(13,991,087)
Cash payments to employees for services	(2,268,950)	(1,912,843)
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	<u>539,886</u>	<u>127,684</u>
CASH FLOWS FROM NONCAPITAL		
FINANCING ACTIVITIES:		
Proceeds from property taxes	325,159	255,964
Other receipts	164,854	186,741
NET CASH PROVIDED (USED) BY		
NONCAPITAL FINANCING ACTIVITIES	<u>490,013</u>	<u>442,705</u>
CASH FLOWS FROM CAPITAL AND		
RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(695,920)	(1,830,680)
Proceeds from sale of capital assets	-	26,128
Change in deferred construction advances	(292,471)	135,135
Principal payments on certificates of participation	(300,000)	(285,000)
Interest paid	(1,522,341)	(1,179,790)
Proceeds from installment purchase contract	21,405,182	-
Debt issuance costs	(223,778)	-
Capital contributions received	328,639	164,056
NET CASH PROVIDED (USED) BY CAPITAL		
AND RELATED FINANCING ACTIVITIES	<u>18,699,311</u>	<u>(2,970,151)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contributions to joint ventures	(439,104)	(1,570,569)
Purchases of investments	(15,025,503)	(4,966,390)
Proceeds from sale of investments	12,643,506	6,417,139
Investment income	311,402	417,040
NET CASH PROVIDED (USED)		
BY INVESTING ACTIVITIES	<u>(2,509,699)</u>	<u>297,220</u>
NET INCREASE (DECREASE) IN		
CASH AND CASH EQUIVALENTS	17,219,511	(2,102,542)
CASH AND CASH EQUIVALENTS -		
BEGINNING OF YEAR	<u>2,930,684</u>	<u>5,033,226</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,150,195</u>	<u>\$ 2,930,684</u>

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

(Continued)

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (415,758)	\$ (916,530)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,211,497	2,120,426
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(343,876)	(328,000)
(Increase) decrease in supply inventories	4,217	(50,089)
(Increase) decrease in water in storage	(1,120,000)	(1,054,000)
(Increase) decrease in prepaid expenses	(2,458)	(7,541)
(Increase) decrease in other receivable	(806,236)	-
Increase (decrease) in accounts payable	1,029,952	68,805
Increase (decrease) in refundable customer deposits	17,056	5,470
Increase (decrease) in compensated absences	2,427	(16,507)
Increase (decrease) in accrued net OPEB obligation	(36,935)	305,650
	<u>539,886</u>	<u>127,684</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 539,886</u>	<u>\$ 127,684</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization of debt discount and premium costs	<u>\$ (19,240)</u>	<u>\$ 16,785</u>
NONCASH INVESTING ACTIVITIES:		
Income(loss) from investment in joint ventures	<u>\$ (27,304)</u>	<u>\$ 92,241</u>

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

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NOTES TO BASIC FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013 and 2012

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

c. Measurement Focus and Basis of Accounting:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Under the economic measurement focus all assets, 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 present 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.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Implemented:

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, the calculation of deferred loss on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 by \$294,390, which is the amount of unamortized debt issuance costs at July 1, 2012.

Pending Accounting Standards:

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

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued):

- GASB 69 - “*Government Combinations and Disposals of Government Operations*”, effective for periods beginning after December 15, 2013.
- GASB 70 - “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”, effective for the periods beginning after June 15, 2013.

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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any deferred outflows of resources to report.

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 a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any deferred inflows of resources to report.

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.

See independent auditors’ report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Net Position (Continued):

- 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.

i. Cash and Cash Equivalents:

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

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.

See independent auditors’ report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 ranging from 5 to 75 years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

o. Capitalized Interest:

The District incurred interest charges on the Certificates of Participation (Note 7) and the installment purchase contract with Puente Basin Water Agency totaling \$1,639,589 and \$1,140,715 for the years ended June 30, 2013 and 2012, respectively. \$55,052 and \$11,760 of these amounts have been capitalized as additions to the cost of construction for the years ended June 30, 2013 and 2012, respectively.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2013 and 2012, 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.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

u. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2013 and June 30, 2012 are reported in the accompanying statements of net position as follows:

	<u>2013</u>	<u>2012</u>
Financial Statement Classification:		
Unrestricted:		
Cash and cash equivalents	\$ 2,150,166	\$ 814,890
Investments	14,313,673	14,949,372
Restricted:		
Cash and cash equivalents	18,000,029	2,115,794
Investments	<u>2,622,420</u>	<u>-</u>
Total cash and investments	<u>\$ 37,086,288</u>	<u>\$ 17,880,056</u>

Cash and investments as of June 30, 2013 and June 30, 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 400	\$ 400
Demand deposits	501,905	1,306,036
Time deposits	2,168,184	2,160,000
Investments	<u>34,415,799</u>	<u>14,413,620</u>
Total cash and cash equivalents	<u>\$ 37,086,288</u>	<u>\$ 17,880,056</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. CASH AND INVESTMENTS (CONTINUED):

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored			
Agency Securities	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
CD Placement Service	5 years	30%	None
Bankers Acceptances	180 days	40%	30%
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

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

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

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

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk:

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

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2013 and 2012.

June 30, 2013	Remaining Maturity (in Years)				Fair Value Total
	Less Than 1 year	1 to 2 Years	2 to 3 Years	3 to 5 Years	
U.S. Treasury Notes	\$ 250,673	\$ 519,375	\$ 261,270	\$ 1,197,142	\$ 2,228,460
U.S. Government Sponsored Agency Securities:					
Federal Home Loan Bank	501,633	801,903	-	-	1,303,536
Federal Home Loan Mortgage Corporation	507,746	260,113	-	2,112,738	2,880,597
Federal National Mortgage Association	1,016,352	103,246	259,880	4,098,642	5,478,120
Federal Farm Credit Bank	254,777	-	-	-	254,777
LAIF	1,613,948	-	-	-	1,613,948
Money Market Mutual Funds	349,603	-	-	-	349,603
Held by Trustee:					
U.S. Treasury Notes	-	-	-	1,466,846	1,466,846
Investment Agreement	-	-	-	1,155,575*	1,155,575
Money Market Mutual Funds	17,684,337	-	-	-	17,684,337
	<u>\$ 22,179,069</u>	<u>\$ 1,684,637</u>	<u>\$ 521,150</u>	<u>\$ 10,030,943</u>	<u>\$ 34,415,799</u>
June 30, 2012	Remaining Maturity (in Years)				Fair Value Total
Investment Type	Less Than 1 year	1 to 2 Years	2 to 3 Years	3 to 5 Years	
U.S. Treasury Notes	\$ 707,050	\$ 258,370	\$ 529,005	\$ 1,031,153	\$ 2,525,578
U.S. Government Sponsored Agency Securities:					
Federal Home Loan Bank	1,264,681	514,929	809,416	-	2,589,026
Federal Home Loan Mortgage Corporation	2,280,578	518,065	265,413	971,428	4,035,484
Federal National Mortgage Association	511,755	1,039,177	105,265	1,722,957	3,379,154
Federal Farm Credit Bank	-	260,130	-	-	260,130
LAIF	99,560	-	-	-	99,560
Held by Trustee:					
Money Market Mutual Funds	1,524,688	-	-	-	1,524,688
	<u>\$ 6,388,312</u>	<u>\$ 2,590,671</u>	<u>\$ 1,709,099</u>	<u>\$ 3,725,538</u>	<u>\$ 14,413,620</u>

* Investment agreement expires December 3, 2018

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

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, 2013 and 2012. U.S. treasury notes and bills are not required to be rated and, therefore, have been excluded from the tables below.

June 30, 2013

Investment	Minimum Legal Rating	Total as of June 30, 2013	AAA	AA+	Unrated
U.S. Government					
Sponsored Agency Securities:					
Federal Home Loan Bank	N/A	\$ 1,303,536	\$ -	\$ 1,303,536	\$ -
Federal Home Loan Mortgage Corporation	N/A	2,880,597	-	2,880,597	-
Federal National Mortgage Association	N/A	5,478,120	-	5,478,120	-
Federal Farm Credit Bank	N/A	254,777	-	254,777	-
LAIF	N/A	1,613,948	-	-	1,613,948
Money Market Mutual Funds	A	349,603	349,603	-	-
Held by Trustee:					
Investment Agreement	N/A	1,155,575	-	-	1,155,575
Money Market Mutual Funds	A	17,684,337	17,684,337	-	-
		<u>\$ 30,720,493</u>	<u>\$ 18,033,940</u>	<u>\$ 9,917,030</u>	<u>\$ 2,769,523</u>

June 30, 2012

Investment	Minimum Legal Rating	Total as of June 30, 2012	AAA	AA+	Unrated
U.S. Government					
Sponsored Agency Securities:					
Federal Home Loan Bank	N/A	\$ 2,589,026	\$ -	\$ 2,589,026	\$ -
Federal Home Loan Mortgage Corporation	N/A	4,035,484	-	4,035,484	-
Federal National Mortgage Association	N/A	3,379,154	-	3,379,154	-
Federal Farm Credit Bank	N/A	260,130	-	260,130	-
LAIF	N/A	99,560	-	-	99,560
Held by Trustee:					
Money Market Mutual Funds	A	1,524,688	1,524,688	-	-
		<u>\$ 11,888,042</u>	<u>\$ 1,524,688</u>	<u>\$ 10,263,794</u>	<u>\$ 99,560</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

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

Issuer	Investment Type	2013	2012
Federal Home Loan Bank	U.S. Government Sponsored Agency Securities	\$ *	\$2,589,026
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Agency Securities	\$2,880,597	\$4,035,484
Federal National Mortgage Association	U.S. Government Sponsored Agency Securities	\$5,478,120	\$3,379,154

* - Not over 5%

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, 2013 and 2012, the District had no uninsured and uncollateralized deposits.

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ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. RESTRICTED ASSETS:

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

<u>Funding Source</u>	<u>Use</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Deposits from customers	Security deposits for payment of utility bills	\$ 176,465	\$ 159,409
Customer advances	Construction	139,226	431,697
Bond proceeds	Debt service	2,638,352	1,524,688
Bond proceeds	Construction projects	<u>17,668,406</u>	<u>-</u>
		<u>\$ 20,622,449</u>	<u>\$ 2,115,794</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012 <u>(As Restated)</u>	<u>Additions</u>	Retirements <u>Transfers</u>	Balance <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Water rights	5,000	-	-	5,000
Construction in progress	<u>3,103,632</u>	<u>2,240,508</u>	<u>(4,328,094)</u>	<u>1,016,046</u>
 Total capital assets, not being depreciated	 <u>3,369,972</u>	 <u>2,240,508</u>	 <u>(4,328,094)</u>	 <u>1,282,386</u>
Capital assets, being depreciated:				
Intangible plant	877,484	145,067	-	1,022,551
Sources of supply plant	1,998,543	60,160	-	2,058,703
Pumping plant	10,037,819	-	-	10,037,819
Transmission and distribution plant	60,363,747	2,211,790	-	62,575,537
Telemetry equipment	1,332,302	21,933	-	1,354,235
General plant	550,403	-	-	550,403
Office building and equipment	4,231,686	223,220	-	4,544,906
Transportation equipment	647,923	121,336	-	769,259
Communication equipment	<u>133,902</u>	<u>-</u>	<u>-</u>	<u>133,902</u>
 Total capital assets, being depreciated	 80,263,809	 2,783,506	 -	 83,047,315
Less accumulated depreciation	<u>(21,935,749)</u>	<u>(2,211,497)</u>	<u>-</u>	<u>(24,147,246)</u>
 Total capital assets, being depreciated, net	 <u>58,328,060</u>	 <u>572,009</u>	 <u>-</u>	 <u>58,900,069</u>
 Total capital assets, net	 <u>\$ 61,698,032</u>	 <u>\$ 2,812,517</u>	 <u>\$ (4,328,094)</u>	 <u>\$ 60,182,455</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

4. CAPITAL ASSETS (CONTINUED):

Changes in capital assets for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Retirements Transfers	Balance June 30, 2012 (As Restated)
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Water rights	5,000	-	-	5,000
Construction in progress, as restated	<u>2,704,517</u>	<u>1,836,999</u>	<u>(1,437,884)</u>	<u>3,103,632</u>
 Total capital assets, not being depreciated	 <u>2,970,857</u>	 <u>1,836,999</u>	 <u>(1,437,884)</u>	 <u>3,369,972</u>
Capital assets, being depreciated:				
Intangible plant	810,935	66,549	-	877,484
Sources of supply plant	1,767,023	231,520	-	1,998,543
Pumping plant	10,037,819	-	-	10,037,819
Transmission and distribution plant	59,216,182	1,147,565	-	60,363,747
Telemetry equipment	1,332,302	-	-	1,332,302
General plant	550,403	-	-	550,403
Office building and equipment	4,231,305	94,356	(3,975)	4,321,686
Transportation equipment	651,690	-	(3,767)	647,923
Communication equipment	<u>133,902</u>	<u>-</u>	<u>-</u>	<u>133,902</u>
 Total capital assets, being depreciated	 78,731,561	 1,539,990	 (7,742)	 80,263,809
Less accumulated depreciation	<u>(19,815,323)</u>	<u>(2,120,426)</u>	<u>-</u>	<u>(21,935,749)</u>
 Total capital assets, being depreciated, net	 <u>58,916,238</u>	 <u>(580,436)</u>	 <u>(7,742)</u>	 <u>58,328,060</u>
 Total capital assets, net	 <u>\$ 61,887,095</u>	 <u>\$ 1,256,563</u>	 <u>\$(1,445,626)</u>	 <u>\$ 61,698,032</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

5. OTHER RECEIVABLE:

As described in Note 6, the District is invested in the Puente Basin Water Agency joint venture with Walnut Valley Water District. During the fiscal year ended June 30, 2013, the District paid for transactions related to the joint venture on behalf of the Walnut Valley Water District. These amounts will be reimbursed and have been included in the accompanying statements of net position as other receivable. The total incurred and due to the District at June 30, 2013 is \$806,236.

6. 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, primarily capital assets. The changes in its investment in Puente Basin Water Agency consisted of the following:

	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 1,651,987	\$ 1,210
Contributions	439,104	1,570,569
Share of income (loss)	<u>(37,518)</u>	<u>80,208</u>
End of year	<u>\$ 2,053,573</u>	<u>\$ 1,651,987</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

Puente Basin Water Agency (Continued):

The following is condensed financial information of the investment in Puente Basin Water Agency as of and for the year ended June 30, 2013 including the participants' approximate percentage shares:

		2013	
	Amount	Walnut Valley Water District	Rowland Water District
Total assets	\$ 4,216,006	50.0%	50.0%
Total liabilities	108,859	50.0%	50.0%
Total equity	4,107,147	50.0%	50.0%
Billings to participants	286,034	50.0%	50.0%

The following is condensed financial information of the investment in Puente Basin Water Agency as of and for the year ended June 30, 2012 including the participants' approximate percentage shares:

		2012	
	Amount	Walnut Valley Water District	Rowland Water District
Total assets	\$ 3,441,524	50.0%	50.0%
Total liabilities	137,551	50.0%	50.0%
Total equity	3,303,973	50.0%	50.0%
Billings to participants	362,751	50.0%	50.0%

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.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

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

Each year, every member agency is charged an assessment for their share of the general and administrative costs of the Commission which is allocated based on each agency's capacity rights in the pipeline. In addition, a capital surcharge is assessed for the future replacement of the pipeline. For the years ended June 30, 2013 and 2012, the District remitted assessments of \$44,106 each year, for their 20.0% capacity rights and their share of future replacement costs. Also, the District purchased water totaling \$5,248,548 and \$5,303,632 from the Commission during the years end June 30, 2013 and 2012, respectively.

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:

	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 629,428	\$ 617,395
Share in income	10,214	12,033
End of year	<u>\$ 639,642</u>	<u>\$ 629,428</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, 2013 including the participants' approximate percentage shares:

	<u>2013</u>				
		City of	Walnut	Rowland	
	Amount	Pomona	Valley	Water	Unallocated
			District	District	
Total assets	\$ 6,339,062	28.4%	42.6%	27.5%	1.5%
Total liabilities	4,013,092	28.4%	42.6%	27.5%	1.5%
Total equity	2,325,970	28.4%	42.6%	27.5%	1.5%
Billings to participants	1,958,764	28.4%	42.6%	27.5%	1.5%

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

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

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, 2012 including the participants' approximate percentage shares:

	2012				
	Amount	City of Pomona	Walnut Valley Water District	Rowland Water District	Unallocated
Total assets	\$ 5,940,808	28.4%	42.6%	27.5%	1.5%
Total liabilities	3,651,980	28.4%	42.6%	27.5%	1.5%
Total equity	2,288,828	28.4%	42.6%	27.5%	1.5%
Billings to participants	17,592,808	28.4%	42.6%	27.5%	1.5%

7. CERTIFICATES OF PARTICIPATION:

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

The Certificates were issued at a discount of \$188,627, which is being amortized and recognized as interest expense over the life of the debt on a straight-line basis. This issuance is comprised of \$6,815,000 serial certificates maturing annually on December 1 from 2009 to 2025 and three term certificates (totaling \$13,730,000) maturing on December 1, 2029, 2035 and 2039 that are payable in annual sinking fund installments commencing December 1, 2026. Interest on the certificates is payable semi-annually on December 1 and June 1 at rates ranging from 4.00% to 5.75% for the serial certificates and 6.00% to 6.50% for the term certificates. The required reserve for the Certificates of Participation is \$1,524,688 and as of June 30, 2013 the reserve was funded at \$1,477,654.

The following is a summary of the changes in Certificates of Participation for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Due Within One Year
Certificates of Participation (COP):					
2008 COP	\$ 19,720,000	\$ -	\$ (300,000)	\$ 19,420,000	\$ 315,000
Less:					
Unamortized discount	(167,417)	-	6,085	(161,332)	-
TOTAL	\$ 19,552,583	\$ -	\$ (293,915)	\$ 19,258,668	\$ 315,000

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

7. CERTIFICATES OF PARTICIPATION (CONTINUED):

Maturities of the 2008 Certificates of Participation and interest payments subsequent to June 30, 2013 as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 315,000	\$ 1,165,975	\$ 1,480,975
2015	330,000	1,149,850	1,479,850
2016	345,000	1,132,975	1,477,975
2017	365,000	1,114,313	1,479,313
2018	385,000	1,104,275	1,489,275
2019 - 2023	2,260,000	5,138,544	7,398,544
2024 - 2028	2,990,000	4,567,869	7,557,869
2029 - 2033	4,055,000	3,341,400	7,396,400
2034 - 2038	5,595,000	1,799,769	7,394,769
2039 - 2040	2,780,000	263,438	3,043,438
Total	<u>\$ 19,420,000</u>	<u>\$ 20,778,408</u>	<u>\$ 40,198,408</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%. 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 required reserve for contract is \$1,181,250 and as of June 30, 2013 the reserve was funded at \$1,160,698.

The following is a summary of the installment purchase contract for the year ended June 30, 2013:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Due Within One Year</u>
Installment purchase Contract	\$ -	\$ 19,835,000	\$ -	\$ 19,835,000	\$ 380,000
Less:					
Unamortized premium	-	1,570,182	(25,325)	1,544,857	-
TOTAL	<u>\$ -</u>	<u>\$ 21,405,182</u>	<u>\$ (25,325)</u>	<u>\$ 21,379,857</u>	<u>\$ 380,000</u>

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ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

8. INSTALLMENT PURCHASE CONTRACT PAYABLE (CONTINUED):

Maturities of the installment purchase contract and interest payments subsequent to June 30, 2013 as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 380,000	\$ 777,241	\$ 1,157,241
2015	385,000	766,350	1,151,350
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 - 2023	2,390,000	3,374,275	5,764,275
2024 - 2028	2,905,000	2,860,375	5,765,375
2029 - 2033	3,405,000	2,359,456	5,764,456
2034 - 2038	4,035,000	1,736,719	5,771,719
2039 - 2042	5,105,000	663,625	5,768,625
Total	<u>\$ 19,835,000</u>	<u>\$ 14,762,816</u>	<u>\$ 34,597,816</u>

9. COMPENSATED ABSENCES:

In accordance with the District's policy, employees may accrue up to 240 hours of vacation. For the years ended June 30, 2013 and 2012, the total accrued vacation liability for all employees totaled \$148,044 and \$142,445, respectively.

Also, in accordance with the District's policy, employees may accrue up to 352 hours of sick leave. Upon attaining 352 hours, the employee may exercise a one-time option to exchange sick leave hours for cash or vacation time. Upon separation, retirement or death, an employee shall receive as additional retirement benefit, an amount equal to 50% of accrued hours for unused sick leave pay for up to 352 hours, or 176 hours. The District has modified the Employment Agreement in regards to the General Manager's sick leave benefits. The Manager shall receive the same sick leave benefits, upon the same terms and conditions, as provided to all other District employees, except that upon retirement or other termination of the Manager's employment. The Manager is entitled to receive 100% of accrued sick leave up to 1,000 hours in the event of separation from employment. For the years ended June 30, 2013 and 2012, the total accrued sick leave liability for all employees totaled \$175,734 and \$178,906, respectively.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

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. EMPLOYEE RETIREMENT PLANS:

a. Plan Description:

Rowland Water District contributes to the Miscellaneous 2.5% at 55 Risk Pool and Miscellaneous 2% at 62 Risk Pool of the California Employees Retirement System (CalPERS), cost sharing, multiple-employer public employee defined benefit pension plans. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. The Miscellaneous 2% at 62 Risk Pool was created by California Employees' Pension Reform Act (PEPRA) as of January 1, 2013, and is open to all new employees who do not qualify for the Miscellaneous 2.5% at 55 Risk Pool. Benefit provisions and all other requirements are established by State statute and District resolutions. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at, 400 P Street, Sacramento, CA 95814.

b. Funding Policy:

The contributions to the Miscellaneous 2.5% at 55 Risk Pool include an employee portion of 8% of current covered payroll. The District has elected to contribute the employee portion. The District is also required to contribute any actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2013 was 16.871%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

11. EMPLOYEE RETIREMENT PLANS (CONTINUED):

b. Funding Policy (Continued):

The contributions to the Miscellaneous 2% at 62 Risk Pool include an employee portion of 6.25% of current covered payroll which the Districts is prohibited from paying on behalf of the employees. The required employer contribution rate of the fiscal year ended June 30, 2013 was 6.25%. The contribution requirements of the plan members and the District are established by state statute.

The District's contributions to the Miscellaneous 2.5% at 55 Risk Pool for the years ended June 30, 2013, 2012 and 2011, which were all prepaid by the District at the beginning of the year, were \$345,787, \$334,641, and \$230,905, respectively. These contributions were equal to the required contributions for each year. There were no contributions to the Miscellaneous 2% at 62 Risk Pool during the fiscal year ended June 30, 2013.

On July 15, 2013, the District paid \$384,274 to pay off the remaining balance of the Side Fund that had been created as a result of the mandate by the State to participate in the Miscellaneous 2.5% at 55 Risk Pool back on July 1, 2005. This amount has been included in accounts payable as of June 30, 2013 as the Side Fund relates to past service costs.

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 PERS on or after age 50 with at least 5 years of service. The District provides 100% of the cost of coverage for the retiree and any covered spouse.

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

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

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

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

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis. For the years ended June 30, 2013 and 2012, the District paid \$103,272 and \$117,642, respectively, in health care costs for its retirees and their covered dependents. In addition the District made a \$285,000 contribution to a trust account established to fund the District's net OPEB obligation for the year ended June 30, 2013.

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.

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:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 346,266	\$ 420,952
Interest on net OPEB obligation	52,667	25,230
Adjustment to annual required contribution	<u>(47,596)</u>	<u>(22,890)</u>
Annual OPEB cost (expense)	351,337	423,292
Actual contributions made	<u>(388,272)</u>	<u>(117,642)</u>
Increase (decrease) in net OPEB obligation	(36,935)	305,650
Net OPEB Obligation - beginning of year	<u>810,255</u>	<u>504,605</u>
Net OPEB Obligation - end of year	<u>\$ 773,320</u>	<u>\$ 810,255</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

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

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, 2013, 2012 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/11	\$ 410,541	126.22%	\$ 504,605
6/30/12	423,292	27.79%	810,255
6/30/13	351,337	110.50%	773,320

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 \$2,145,129 and the ratio of the UAAL to the covered payroll was 190.92%.

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.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

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

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.

At June 30, 2013, 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 \$43,363,657). 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.

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

13. RISK MANAGEMENT (CONTINUED):

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.

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Designated reserves for:		
Operations	\$ 3,610,000	\$ 2,902,500
Rate stabilization	976,591	1,533,565
Capital funding including expansion of facilities and future repairs and maintenance	<u>11,868,713</u>	<u>11,517,486</u>
Total Designated Reserves	16,455,304	15,953,551
Undesignated net position	<u>1,112,902</u>	<u>3,014,294</u>
 Total Unrestricted Net Position	 <u>\$ 17,568,206</u>	 <u>\$ 18,967,845</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

15. COMMITMENTS AND CONTINGENCIES:

The District has entered into a water production and delivery agreement with another party to receive groundwater produced on behalf of the District. Under the terms of the agreement, the District is required to contribute \$2,000,000 to the other party for necessary expansion, rehabilitation and improvements of their facilities as a result of this agreement. The District made one payment in the amount of \$660,000 in fiscal year 2011-2012. Of that amount, \$330,000 is due from another district and is included in other receivable in the accompanying statements of net position and \$330,000 was expensed in the accompanying statements of revenues, expenses and changes in net position. The remaining \$1,340,000 (\$670,000 of which is due from another District) is due upon meeting certain conditions set forth in the agreement.

16. RESTATEMENT OF NET POSITION:

Net position as of July 1, 2012 has been restated as follows:

Net position as previously reported	\$ 62,120,843
Reduction in net position to remove unamortized bond issuance costs as a result of the implantation of GASB Statement No. 65	(294,390)
Addition to record investment in joint venture of Pomona-Walnut-Rowland Joint Water Line Commission	629,428
Addition to record investment in joint venture of Puente Basin Water Agency (\$1,651,987 net of \$1,491,025 reclassified from water rights)	160,962
Addition to record costs related to construction in progress that were previously expensed	<u>21,139</u>
Net position as restated	<u>\$ 62,637,982</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

16. RESTATEMENT OF NET POSITION (CONTINUED):

The following balances as of and for the year ended June 30, 2012 were restated as a result of these corrections:

	<u>As Originally Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<u>Statement of Net Position</u>			
Capital assets, not being depreciated	\$ 4,839,858	\$ (1,469,886)	\$ 3,369,972
Bond issuance costs, net	294,390	(294,390)	-
Investment in joint ventures	-	2,281,415	2,281,415
Accrued net OPEB obligation	659,134	(46,882)	612,252
Net position:			
Net investment in capital assets	43,615,335	(1,469,886)	42,145,449
Unrestricted	16,980,820	1,987,025	18,967,845
<u>Statement of Revenues, Expenses and Changes in Net Position</u>			
Nonoperating revenues (expenses):			
Income from investment in joint ventures	-	92,241	92,241
Change in net position	(1,213,479)	92,241	(1,121,238)
Net position - beginning of year	63,334,322	424,898	63,759,220
Net position - end of year	62,120,843	517,139	62,637,982
<u>Statement of Cash Flows</u>			
Acquisition and construction of capital assets	(3,401,249)	1,570,569	(1,830,680)
Contributions to joint ventures	-	(1,570,569)	(1,570,569)

17. SUBSEQUENT EVENTS:

Events occurring after June 30, 2013 have been evaluated for possible adjustments to the financial statements or disclosure as of November 12, 2013, which is the date these financial statements were available to be issued.

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the years ended June 30, 2013 and 2012

**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%	\$ 2,145,129	190.92%

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULES OF OTHER OPERATING EXPENSES

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Engineering	\$ 22,012	\$ 36,243
Maintenance and operations	23,247	18,669
Small tools and supplies	19,356	23,845
Water tests	22,482	25,761
Certification, fees and permits	40,332	113,023
Water supply planning and development	<u>174,441</u>	<u>237,824</u>
TOTAL OTHER OPERATING EXPENSES	<u>\$ 301,870</u>	<u>\$ 455,365</u>

See independent auditors' report.

ROWLAND WATER DISTRICT

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries and wages	\$ 898,864	\$ 914,609
Payroll taxes	159,495	156,215
Insurance	670,875	707,107
Automobile expenses	58,248	90,120
Service charges	135,295	57,777
Office supplies and expenses	259,881	151,817
Utilities	74,152	61,199
Professional services	331,930	351,719
Membership fees and dues	42,744	40,180
Conferences and travel	67,928	40,841
Directors' fees and expenses	31,790	30,492
Public relations	160,794	128,054
Repairs and maintenance	14,734	6,667
Pension plan contributions	889,957	492,030
Other post employment benefits	351,337	423,292
Seminars and training	41,638	57,786
Conservation rebate program expenses	1,442	5,602
Taxes, permits and fees	7,020	6,728
Uncollectable accounts	14,420	-
Miscellaneous	<u>33,344</u>	<u>41,946</u>
 TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	 <u>\$ 4,245,888</u>	 <u>\$ 3,764,181</u>

See independent auditors' report.

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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*

The 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 Rowland Water District (the District) as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2013.

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 first paragraph of this section 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 weakness. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the next paragraph, that we consider to be a significant deficiency.

Internal Control Over Financial Reporting (Continued)

Construction-in-Progress

We noted that project costs related to master plans, alternative water supply feasibility studies, and customer development are still being capitalized in the construction-in-progress account. These project types do not meet the preconditions for capitalization. A cost should be capitalized only if it is directly identifiable with a specific capital asset and only if it is incurred after the acquisition of the related capital asset has come to be considered probable. We recommend that management review and modify its controls over asset capitalization to ensure that these preconditions are met before including the project costs in the construction-in-progress account.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

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.

White Nelson Dick Evans LLP

Irvine, California
November 12, 2013