# ROWLAND WATER DISTRICT

# FINANCIAL STATEMENTS

# WITH REPORT ON AUDIT
# BY INDEPENDENT
# CERTIFIED PUBLIC ACCOUNTANTS

# FOR THE YEAR ENDED JUNE 30, 2017

ROWLAND WATER DISTRICT

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For the Year Ended June 30, 2017

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) as of and for the year ended June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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*Offices located in Orange and San Diego Counties*

## 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, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 16 to the financial statements, the District made a restatement that resulted in a decrease in previously reported net position. Our opinion is not modified with respect to this matter.

## Other Matters

*Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions for the defined benefit pension plan, and the other post-employment benefit plan schedules of funding progress and annual money-weighted rate of return on investments, identified as required supplementary information in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
February 20, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. Please read it in conjunction with the financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

Fiscal Year 2017

- The District's total net position increased by $678,011 or 1.12%.
- During the year, the District's total revenues increased to $22,055,124 or 5.32%, and total expenses increased to $21,337,113 or 7.50%.

Fiscal Year 2016

- The District's total net position increased by $1,056,908 or 1.78%.
- During the year, the District's total revenues decreased to $20,941,930 or 3.21%, and total expenses decreased to $19,885,022 or 4.06%.

## 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.

## 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 2017 | Fiscal Year 2016 | Dollar Change |
|---|---|---|---|
| Assets: | | | |
| Current, restricted and noncurrent | $ 44,250,892 | $ 44,801,972 | $ (551,080) |
| Capital assets | 59,100,917 | 58,752,386 | 348,531 |
| Total Assets | 103,351,809 | 103,554,358 | (202,549) |
| Deferred outflows of resources | 4,513,864 | 4,186,693 | 327,171 |
| Liabilities: | | | |
| Current liabilities | 3,859,861 | 3,641,204 | 218,657 |
| Noncurrent liabilities | 42,948,961 | 43,231,814 | (282,853) |
| Total Liabilities | 46,808,822 | 46,873,018 | (64,196) |
| Deferred inflows of resources | 164,040 | 352,751 | (188,711) |
| Net Position: | | | |
| Net investment in capital assets | 37,741,060 | 37,325,615 | 415,445 |
| Unrestricted | 23,151,751 | 23,189,667 | (37,916) |
| Total Net Position | $ 60,892,811 | $ 60,515,282 | $ 377,529 |

As can be seen from Table 1, total assets and deferred outflows of resources increased $124,622 from fiscal year 2016 to 2017. Total Net Position saw an increase of $678,011 or 1.12% from the previous fiscal year.

## NET POSITION (CONTINUED)

A further review shows total liabilities and deferred inflows of resources decreased by $553,389 or 1.17% from fiscal year 2016 to 2017. There were two main reasons for this decrease. The first being a reduction in the principal of the two District bonds that are outstanding. The liability for these two bonds was reduced by $1,054,253 in fiscal year 2017. The second is the District's net OPEB obligation was zero for fiscal year 2017. It was $120,446 in fiscal year 2016. The District has continued to fund it OPEB trust therefore eliminating the liability for this fiscal year. The decreases in these two amounts help to offset the increase in net pension liability.

Large projects completed during fiscal year 2017 included:

**Valve Replacement (Altario Street & Colima Road):** Rowland Water District determined through valve exercising that many of the District's mainline valves were nonoperational or did not properly shutdown. After research, we determined that our main focus would be two 16" valves on Colima Road and three valves on Altario Street in La Puente. We awarded Doty Brothers Construction with the project on Colima Road. We had one 16" butterfly valve installed at the intersection of Jellick and Colima and one 16" butterfly valve installed at Desire and Colima. Rowland Water District did all three installations on Altario Street. We installed three 6" gate valves at the intersection of Altario and La Seda. These type of upgrades are necessary to ensure the District's infrastructure remains strong and will remain a focus in the future.

**Route 33 Advanced Metering Infrastructure (AMI) Conversion:** Rowland Water District determined through failing modules on the current Automated Meter Reading (AMR) system and numerous rereads that Route 33 was in need of a new reading system. Some of the affected areas of Route 33 included streets such as Calle Barcelona, Calle Los Arboles, Crosshaven, and Samara. Through heavy study and thorough evaluation of many different AMI products, Rowland Water District chose the Master Meter AMI system. The District did all AMI conversions and replaced all 233 meter modules in the route. In the future, the Master Meter AMI system will replace the older Badger AMR system.

## NET POSITION (CONTINUED)

### TABLE 2

### Condensed Statements of Revenues, Expenses and Changes in Net Position

| | Fiscal Year 2017 | Fiscal Year 2016 | Dollar Change |
|---|---|---|---|
| Revenues: | | | |
| Operating revenues | $ 21,310,310 | $ 19,665,042 | $ 1,645,268 |
| Nonoperating revenues | 744,537 | 1,276,888 | (532,351) |
| Total Revenues | 22,054,847 | 20,941,930 | 1,112,917 |
| Expenses: | | | |
| Operating expenses | 19,556,341 | 18,291,761 | 1,264,580 |
| Nonoperating expenses | 1,820,495 | 1,593,261 | 227,234 |
| Total Expenses | 21,376,836 | 19,885,022 | 1,491,814 |
| Change in Net Position | 678,011 | 1,056,908 | (378,897) |
| Beginning Net Position | 60,515,282 | 59,458,374 | 1,056,908 |
| Restatement | (300,482) | - | (300,482) |
| Beginning Net Position, as Restated | 60,214,800 | 59,458,374 | 756,426 |
| Ending Net Position | $ 60,892,811 | $ 60,515,282 | $ 377,529 |

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, an increase in ending net position of $678,011 occurred fiscal year 2017.

**NET POSITION (CONTINUED)**

A closer examination of the sources of changes in Net Position reveals that the District's total revenues increased by $1,112,917 or 5.32% in fiscal year 2017. Of the amount, operating revenues increased by $1,645,268 or 8.37% and its nonoperating revenues decreased by $532,351 or 41.67% in the past fiscal year. The main factor attributing to the increase in operating revenues was an increase in residential and business water sales and an increase in water service charges. The majority of the decrease in nonoperating revenue was the District seeing a significant reduction in its gain/loss from investment in joint ventures. This amount was a loss of $64,459 in fiscal year 2017 compared to a gain of $407,016 in fiscal year 2016.

The District's total water sales increased from approximately 9,920 acre feet in fiscal year 2015-2016 to 10,111 acre feet in fiscal year 2016-2017. Most of the increase in revenue can be attributed to this along with a slightly different tiered structure that became effective in March 2017. The zone I water rate was decreased $0.34 from $2.77 to $2.43 for potable customers but this rate was effective for 1-8 hcf. That was a reduction from the previous zone 1 water rate of 1-16 hcf. The new tiers consisted of three levels: 1-8 hcf, 9-15 hcf, and 16+ hcf for monthly customers. These replaced the previous three levels of 1-16hcf, 17-23hcf and 24+ hcf. The zone I water rate for 9-15 hcf increased from $3.19 to $3.57 and 16+ hcf increased from $4.02 to $4.98. The District has six different pumping zones. Zonal surcharges cover the energy costs to pump water to each zone of elevation over Zone I. The additional pumping costs are added to the base rate if the property resides in Zone II through Zone VI. The Zonal surcharges vary from $0.15 in Zone II up to $1.51 for Zone VI. A District rate study showed these new tiers to be more in line with potable water consumption patterns and energy usage. The District continues to promote the use of recycled water so there is no tiered rate structure for excess usage. The recycled water rate remains at $1.71 per hcf. The monthly service charge for standard 5/8" to ¾" meters increased $2.01 or 8.00%

Nonoperating revenues decreased in fiscal year 2017. The District saw interest and dividend income of $234,649, property tax revenues of $336,506 and rental/contract income of $145,985. The District had non-restricted cash, cash equivalents, and investments totaling $12,936,659 ending fiscal year 2017, a decrease of $4,095,678 from fiscal year 2016. The main cause of the decrease is the District purchased 6,000 acre feet of water for storage in fiscal year 2017. The cost of the purchase was $3,575,209 or $596.00 per acre foot. The funds for the purchase came from cash and investments.

While total revenues increased by $1,112,917 or 5.31%, total expenses increased by $1,491,814 or 7.50%. This resulted in a change in net position of ($378,897) in fiscal year 2017. While the District saw operating expenses increased $1,264,580 from fiscal year 2016, Source of Supply cost increased $387,392 and general and administrative expenses $499,193 which consisted of professional services and pension plan contributions.

## NET POSITION (CONTINUED)

The average cost of an acre foot of water increased to $987.00 in 2017 to $918.00 in 2016. Fixed charges decreased $40,201 or 11.37% from fiscal year 2016 to 2017. General and administrative expenses saw an increase of 12.29%. Depreciation for fiscal year 2017 was $2,452,920. The District continues to fund depreciation of its assets through its capital improvement plan.

## BUDGETARY HIGHLIGHTS

**TABLE 3**
**Budget vs. Actual**

| | Fiscal Year 2017 | | |
|---|---|---|---|
| | Actual | Budget | Variance |
| Revenues: | | | |
| Operating revenues | $ 21,310,310 | $ 20,250,000 | $ 1,060,310 |
| Nonoperating revenues | 744,537 | 575,000 | 169,537 |
| Total Revenues | 22,054,847 | 20,825,000 | 1,229,847 |
| Expenses: | | | |
| Operating Expenses: | | | |
| Source of supply | 10,004,181 | 9,030,000 | (974,181) |
| Pumping and power | 913,109 | 1,135,000 | 221,891 |
| Transmission and distribution | 1,216,901 | 1,180,000 | (36,901) |
| Customer services | 96,154 | 155,000 | 58,846 |
| Depreciation expenses | 2,452,920 | 2,500,000 | 47,080 |
| Other operating expenses | 311,077 | 320,000 | 8,923 |
| General and administrative expenses | 4,561,999 | 4,600,000 | 38,001 |
| Total Operating Expenses | 19,556,341 | 18,920,000 | (636,341) |
| Nonoperating expenses | 1,820,495 | 1,800,000 | (20,495) |
| Total Expenses | 21,376,836 | 20,720,000 | (656,836) |
| Change in Net Position | $ 678,011 | $ 105,000 | $ 573,011 |

In looking at Table 3, Budget vs. Actual, the discrepancy in change in Net position over budgeted change in net position and change in net position is $573,011. Total Revenues shows a positive variance of $1,229,847. Total operating expenses saw a negative variance of $656,836 when depreciation is included. Depreciation is not a direct expense to the District and funds are collected through rates and charges to fund it. Nonoperating expenses saw a negative variance of $20,495.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

At the end of fiscal year 2017, the District had invested $59,100,917 in a broad range of Infrastructure as shown in Table 4.

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

| | Fiscal Year 2017 | Fiscal Year 2016 | Dollar Change |
|---|---|---|---|
| Capital assets, not being depreciated: | | | |
| Land | $ 261,340 | $ 261,340 | $ - |
| Water rights | 5,000 | 5,000 | - |
| Construction in progress | 2,107,736 | 1,131,918 | 975,818 |
| Total capital assets, not being depreciated | 2,374,076 | 1,398,258 | 975,818 |
| Capital assets, being depreciated: | | | |
| Intangible plant | 1,022,551 | 1,022,551 | - |
| Sources of supply plant | 2,109,253 | 2,076,956 | 32,297 |
| Pumping plant | 10,037,819 | 10,037,819 | - |
| Transmission and distribution plant | 66,656,601 | 65,121,932 | 1,534,669 |
| Telemetry equipment | 1,540,617 | 1,489,671 | 50,946 |
| General plant | 584,639 | 570,451 | 14,188 |
| Office building and equipment | 6,459,188 | 6,501,662 | (42,474) |
| Transportation equipment | 951,628 | 964,037 | (12,409) |
| Communication equipment | 27,979 | 133,902 | (105,923) |
| Total capital assets, being depreciated | 89,390,275 | 87,918,981 | 1,471,294 |
| Less accumulated depreciation | (32,663,434) | (30,564,853) | (2,098,581) |
| Total capital assets, being depreciated, net | 56,726,841 | 57,354,128 | (627,287) |
| Total capital assets, net | $ 59,100,917 | $ 58,752,386 | $ 348,531 |

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

## DEBT ADMINISTRATION

At the end of fiscal year 2017, the District had noncurrent liabilities totaling $42,948,961 as shown in Table 5.

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

| | Fiscal Year 2017 | Fiscal Year 2016 | Dollar Change |
|---|---|---|---|
| Refunding Bond Series 2014A | $ 19,535,112 | $ 20,112,026 | $ (576,914) |
| Installment purchase contract payable, net | 19,178,876 | 19,656,215 | (477,339) |
| Compensated absences | 300,455 | 294,658 | 5,797 |
| Net pension liability | 3,934,518 | 3,048,469 | 886,049 |
| Net OPEB obligation | - | 120,446 | (120,446) |
| | $ 42,948,961 | $ 43,231,814 | $ (282,853) |

The District currently has four sources of Noncurrent Liabilities in 2017. The Refunding Bond series 2014A is a refunding of the Certificate of Participation (COP) issued January 2009 that was used for the expansion of the District's Recycled Water System. The goal is to lower the dependence on import water by producing recycled water at a lower cost. Recycled water can be used for irrigation at schools, parks, industrial buildings, etc. In November 2012, the District entered into an installment purchase contract with Puente Basin Water Agency in order to finance the acquisition of certain water system improvements. The liability is payable over the next thirty years. The increase in compensated absences is attributed to more accrued sick and vacation time being due to current employees. The liabilities would have to be paid at the employee's retirement or separation from service. Net pension liability is the amount by which the total pension liability exceeds the pension plan's net asset available for paying benefits. This amount increased in fiscal year 2017 to $3,934,518, an increase of $886,049 for fiscal year 2016. The District's pension plan is administered by CalPERS. The net OPEB obligation refers to Other Post-Employment Benefits that would be owed to employees upon retirement after meeting certain criteria. This is the difference between the actuarially determined annual required contribution and actual contribution made. There is no net OPEB obligation for fiscal year 2017 as the District has made contributions to the District's OPEB Trust in excess of the annual required contribution.

Additional information on the District's noncurrent liabilities can be found in Notes 6 - 8 and 10 - 11 of the notes to basic financial statements.

## 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 2018 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 2018 Budget vs. Fiscal Year 2017 Actual**

| | Fiscal Year 2017 Actual | Fiscal Year 2018 Budget | Variance |
|---|---|---|---|
| Revenues: | | | |
| Operating revenues | $ 21,310,310 | $ 21,270,000 | $ (40,310) |
| Nonoperating revenues | 744,537 | 575,000 | (169,537) |
| Total Revenues | 22,054,847 | 21,845,000 | (209,847) |
| Expenses: | | | |
| Operating Expenses: | | | |
| Source of supply | 10,004,181 | 10,195,000 | (190,819) |
| Pumping and power | 913,109 | 1,200,000 | (286,891) |
| Transmission and distribution | 1,216,901 | 1,275,000 | (58,099) |
| Customer services | 96,154 | 165,000 | (68,846) |
| Depreciation expenses | 2,452,920 | 2,500,000 | (47,080) |
| Other operating expenses | 311,077 | 445,000 | (133,923) |
| General and administrative expenses | 4,561,999 | 4,790,000 | (228,001) |
| Total Operating Expenses | 19,556,341 | 20,570,000 | (1,013,659) |
| Nonoperating expenses | 1,820,495 | 1,500,000 | 320,495 |
| Total Expenses | 21,376,836 | 22,070,000 | (693,164) |
| Capital Contributions | - | - | - |
| Change in Net Position | $ 678,011 | $ (225,000) | $ (903,011) |

## 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.

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## BASIC FINANCIAL STATEMENTS

# ROWLAND WATER DISTRICT

## STATEMENT OF NET POSITION

June 30, 2017

| | |
|---|---|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | $ 2,002,215 |
| Investments | 10,934,444 |
| Accounts receivable, net of allowance for doubtful accounts of $30,000 | 3,214,388 |
| Interest receivable | 31,519 |
| Supply inventories | 111,782 |
| Water in storage | 3,675,401 |
| Prepaid items | 46,192 |
| TOTAL CURRENT ASSETS | 20,015,941 |
| RESTRICTED ASSETS: | |
| Cash and cash equivalents | 604,749 |
| Investments | 8,312,369 |
| TOTAL RESTRICTED ASSETS | 8,917,118 |
| CAPITAL ASSETS: | |
| Capital assets, not being depreciated | 2,374,076 |
| Capital assets, being depreciated, net | 56,726,841 |
| TOTAL CAPITAL ASSETS, NET | 59,100,917 |
| OTHER NONCURRENT ASSETS: | |
| Net OPEB asset | 44,443 |
| Investment in joint ventures | 15,273,390 |
| TOTAL OTHER NONCURRENT ASSETS | 15,317,833 |
| TOTAL ASSETS | 103,351,809 |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Deferred amounts from pension plans | 1,166,241 |
| Deferred amounts on refunding | 3,347,623 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 4,513,864 |

(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2017

| | |
|---|---|
| LIABILITIES: | |
| CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS): | |
| Accounts payable | $ 2,162,449 |
| Interest payable | 131,304 |
| Other payables | 71,560 |
| Current portion of installment purchase contract payable | 425,000 |
| Current portion of 2014A refunding bonds payable | 510,000 |
| | 3,300,313 |
| CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS): | |
| Refundable customer deposits | 186,929 |
| Unearned construction advances | 372,619 |
| | 559,548 |
| TOTAL CURRENT LIABILITIES | 3,859,861 |
| NONCURRENT LIABILITIES: | |
| Compensated absences | 300,455 |
| Installment purchase contract payable | 19,178,876 |
| 2014A refunding bonds payable | 19,535,112 |
| Net pension liability | 3,934,518 |
| TOTAL NONCURRENT LIABILITIES | 42,948,961 |
| TOTAL LIABILITIES | 46,808,822 |
| DEFERRED INFLOWS OF RESOURCES: | |
| Deferred amounts from pension plans | 164,040 |
| NET POSITION: | |
| Net investment in capital assets | 37,741,060 |
| Unrestricted | 23,151,751 |
| TOTAL NET POSITION | $ 60,892,811 |

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the year ended June 30, 2017

| | |
|---|---|
| OPERATING REVENUES: | |
| Water sales: | |
| Residential | $ 7,295,770 |
| Business | 5,608,933 |
| Public entities | 246,960 |
| Industrial | 11,605 |
| Reclaimed water | 576,460 |
| Other | 73,162 |
| Total water sales | 13,812,890 |
| Water services: | |
| Water service charges | 6,682,417 |
| Nonrefundable new service fees | 44,816 |
| New service connection fees | 394,161 |
| Reconnection fees | 21,570 |
| Customer penalties | 193,569 |
| Other | 160,887 |
| Total water services | 7,497,420 |
| TOTAL OPERATING REVENUES | 21,310,310 |
| OPERATING EXPENSES: | |
| Source of supply | 10,004,181 |
| Pumping and power | 913,109 |
| Transmission and distribution | 1,216,901 |
| Customer services | 96,154 |
| Depreciation expense | 2,452,920 |
| Other operating expenses | 311,077 |
| General and administrative expenses | 4,561,999 |
| TOTAL OPERATING EXPENSES | 19,556,341 |
| OPERATING INCOME | 1,753,969 |

(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

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

For the year ended June 30, 2016

| | | |
|---|---|---|
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment income: | | |
| Interest and dividend income | $ | 234,649 |
| Realized and unrealized gains (losses) on investments, net | | (189,175) |
| Property tax revenues | | 336,506 |
| Miscellaneous income | | 27,397 |
| Rental and contract income | | 145,985 |
| Interest expense | | (1,538,269) |
| Amortization of debt premium/(discount) | | (28,592) |
| Gain from investment in joint ventures | | (64,459) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | | (1,075,958) |
| CHANGE IN NET POSITION | | 678,011 |
| NET POSITION - BEGINNING OF YEAR, AS RESTATED | | 60,214,800 |
| NET POSITION - END OF YEAR | $ | 60,892,811 |

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from customers | $ 20,697,237 |
| Cash payments to suppliers for goods and services | (18,384,398) |
| Cash payments to employees for services | (2,371,133) |
| NET CASH USED FOR OPERATING ACTIVITIES | (58,294) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Proceeds from property taxes | 336,506 |
| Other receipts | 27,397 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 363,903 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Acquisition and construction of capital assets | (2,801,450) |
| Principal payments on debt | (905,000) |
| Interest paid | (1,538,269) |
| Rental income | 145,985 |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | (5,098,734) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Contributions to joint ventures | (355,348) |
| Purchases of investments | (7,277,840) |
| Proceeds from sale of investments | 11,831,303 |
| Investment income | 240,806 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 4,438,921 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (354,204) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 2,961,168 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 2,606,964 |

See accompanying notes to basic financial statements. (Continued)

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2017

| | |
|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income | $ 1,753,969 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 2,452,920 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in accounts receivable | (599,737) |
| (Increase) decrease in supply inventories | 4,034 |
| (Increase) decrease in water in storage | (3,613,811) |
| (Increase) decrease in prepaid items | (7,074) |
| (Increase) decrease in net OPEB asset | (44,443) |
| (Increase) decrease in deferred outflows of resources from pension plans | (475,016) |
| Increase (decrease) in accounts payables | (170,049) |
| Increase (decrease) in other payables | 71,560 |
| Increase (decrease) in refundable customer deposits | 4,352 |
| Increase (decrease) in compensated absences | 5,797 |
| Increase (decrease) in unearned construction advances | (17,688) |
| Increase (decrease) in accrued net OPEB obligation | (120,446) |
| Increase (decrease) in net pension liability | 886,049 |
| Increase (decrease) in deferred inflows of resources from pension plans | (188,711) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ (58,294) |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Amortization of debt premiums discounts and deferred amount on refunding | $ 28,592 |
| NONCASH INVESTING ACTIVITIES: | |
| Gain from investment in joint ventures | $ (64,459) |

See accompanying notes to basic financial statements.

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## FIDUCIARY FUND FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

| | Other Post-Employment Benefit (OPEB) Trust Fund |
|---|---|
| ASSETS: | |
| Investments | $ 2,992,290 |
| TOTAL ASSETS | 2,992,290 |
| NET POSITION: | |
| Held in trust for OPEB benefits | 2,992,290 |
| TOTAL NET POSITION | $ 2,992,290 |

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2017

| | Other Post-Employment Benefit (OPEB) Trust Fund |
|---|---|
| ADDITIONS: | |
| Employer contributions | $ 420,000 |
| Investment income | 268,191 |
| TOTAL ADDITIONS | 688,191 |
| DEDUCTIONS: | |
| Administrative expense | 7,480 |
| TOTAL DEDUCTIONS | 7,480 |
| CHANGE IN NET POSITION | 680,711 |
| NET POSITION - BEGINNING OF YEAR | 2,311,579 |
| NET POSITION - END OF YEAR | $ 2,992,290 |

See accompanying notes to basic financial statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of Organization:

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

b. Basis of Presentation:

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

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

c. Measurement Focus and Basis of Accounting:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

**Fiduciary Funds:**

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

d. New Accounting Pronouncements:

**GASB Current Year Standards:**

GASB 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016, and did not impact the District.

GASB 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016, and resulted in additional disclosures and required supplementary information.

GASB 77 - *Tax Abatement Disclosure*, effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 79 - *Certain External Investment Pools and Pool Participants*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 80 - *Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016, and did not impact the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   d. New Accounting Pronouncements (Continued):

**Pending Accounting Standards:**

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

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.

- GASB 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.

- GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.

- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.

- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to the pension plans equal to employer contributions made after the measurement date of the net pension liability.

- Deferred outflow related to pensions for annual differences between actual and expected experiences. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

- Deferred outflow related to the pension plans for annual changes in employer's proportion and differences between employer contributions and the proportionate share of contributions. Each annual amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.

- Deferred outflow related to the pension plans resulting from the annual differences in projected and actual earnings on investments of the pension plan fiduciary net position. Each annual amount is amortized over five years.

- Deferred amount on refunding. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the life of the refunding debt, which is 26 years.

In addition to liabilities, the statement of net position and the governmental funds balance sheet 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 and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow related to pensions for annual differences between actual and expected experiences. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Deferred Outflows/Inflows of Resources (Continued):

- Deferred inflow from pensions resulting from annual changes in assumptions. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

- Deferred inflow related to the pension plans for annual changes in employer's proportion and differences between employer contributions and the proportionate share of contributions. Each annual amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.

f. Net Position:

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

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted net position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 reported at the fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 method. Water in storage is valued at average cost.

n. Capital Assets and Depreciation:

Capital assets are stated at cost, net of accumulated depreciation. District policy has set the capitalization threshold for reporting capital assets at $2,500. Depreciation is recorded on the straight-line basis over the estimated useful lives as follows: 5 years for computers, vehicles, office equipment, and furniture; 10 years for forklifts; 15 years for hydrants; 20 years for meters; and 75 years for mains. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized.

o. Capitalized Interest:

The District incurred interest charges on long-term debt totaling $1,538,269 for the year ended June 30, 2017. No interest has been capitalized as additions to the cost of construction for the year ended June 30, 2017.

p. Restricted Liabilities:

Certain liabilities that 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

r. Property Taxes:

Property tax in California is levied in accordance with Article 13A of the State Constitution at 1% of county-wide assessed valuations. This 1% 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 are 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, 2017, in the opinion of the District's legal counsel, the District had no material claims that would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

u. Pensions:

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

v. Use of Estimates:

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

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2017, are reported in the accompanying statement of net position as follows:

| | Government Wide Statement of Net Position | Fiduciary Fund Statement of Net Position | Total |
|---|---|---|---|
| Financial Statement Classification: | | | |
| Unrestricted: | | | |
| Cash and cash equivalents | $ 2,002,215 | $ - | $ 2,002,215 |
| Investments | 10,934,444 | 2,992,290 | 13,926,734 |
| Restricted: | | | |
| Cash and cash equivalents | 604,749 | - | 604,749 |
| Investments | 8,312,369 | - | 8,312,369 |
| Total Cash and Investments | $ 21,853,777 | $ 2,992,290 | $ 24,846,067 |

Cash and investments as of June 30, 2017, consist of the following:

| | District Funds | OPEB Trust | Total |
|---|---|---|---|
| Cash on hand | $ 400 | $ - | $ 400 |
| Demand deposits | 793,551 | - | 793,551 |
| Investments | 21,059,826 | 2,992,290 | 24,052,116 |
| Total Cash and Investments | $ 21,853,777 | $ 2,992,290 | $ 24,846,067 |

**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 or the investment of funds within the OPEB Trust that are governed by the agreement between the District and the Trustee, rather than the general provisions of the California Government Code or the District's investment policy.

2. CASH AND INVESTMENTS (CONTINUED):

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

| Authorized Investment Type | Maximum Maturity | Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Government Sponsored Agency Securities | 5 years | None | None |
| State of California Obligations | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| Negotiable Certificates of Deposit (Negotiable CD) | 5 years | 30% | 5% |
| CD Placement Service | 5 years | 30% | None |
| Banker's 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

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by Debt Agreements:**

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Allowed | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Government Sponsored Agency Securities: | | | |
| Federal Home Loan Bank (FHLB) | None | None | None |
| Federal Home Loan Mortgage Corporation (FHLMC) | None | None | None |
| Federal National Mortgage Association (FNMA) | None | None | None |
| Federal Farm Credit Bank (FFCB) | None | None | None |
| State and Local Agency Obligations | None | None | None |
| Banker's Acceptances | 1 year | None | None |
| Medium-Term Notes | 3 years | None | None |
| Commercial Paper | None | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Agreements | None | None | None |
| Certificates of Deposit | None | None | None |
| Repurchase Agreements | 30 days | None | None |
| California Local Agency Investment Fund (LAIF) | N/A | None | None |

N/A - Not Applicable

**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.

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, 2017.

| | Remaining Maturity (in Years) | | | | |
|---|---|---|---|---|---|
| Investment Type | Less Than 1 year | 1 to 2 Years | 2 to 3 Years | 3 to 5 Years | Fair Value Total |
| District Investments: | | | | | |
| U.S. Treasury Notes | $ 449,112 | $ 1,502,870 | $ 845,196 | $ 732,043 | $ 3,529,221 |
| U.S. Government Sponsored Agency Securities: | | | | | |
| FFCB | - | - | 238,613 | - | 238,613 |
| FHLMC | 1,187,106 | 547,390 | - | - | 1,734,496 |
| FNMA | 2,969,366 | 495,528 | - | 425,607 | 3,890,501 |
| FHLB | - | - | - | 318,814 | 318,814 |
| Negotiable CD | 247,939 | 484,079 | - | - | 732,018 |
| Non-Negotiable CD | 483,000 | - | - | - | 483,000 |
| LAIF | 1,438,816 | - | - | - | 1,438,816 |
| Money Market Mutual Funds | 337,007 | - | - | - | 337,007 |
| Held by Trustee: | | | | | |
| U.S. Treasury Notes | 998,890 | - | - | - | 998,890 |
| U.S. Government Sponsored Agency Securities: | | | | | |
| FHLMC | 3,461,499 | - | - | - | 3,461,499 |
| FNMA | 996,580 | - | - | - | 996,580 |
| LAIF | 44,971 | - | - | - | 44,971 |
| Money Market Mutual Funds | 2,855,400 | - | - | - | 2,855,400 |
| OPEB Trust Investments: | | | | | |
| PARS Trust Pool | 2,992,290 | - | - | - | 2,992,290 |
| | $ 18,461,976 | $ 3,029,867 | $ 1,083,809 | $ 1,476,464 | $ 24,052,116 |

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Credit Risk (Continued):**

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 Standard & Poor's credit ratings for the District's investments as of June 30, 2017. U.S. Treasury notes and bills are not required to be rated and therefore have been excluded from the tables below.

| Investment | Minimum Legal Rating | Total as of June 30, 2017 | AAA | AA+ | Not rated |
|---|---|---|---|---|---|
| District Investments: | | | | | |
| U.S. Government | | | | | |
| Sponsored Agency Securities: | | | | | |
| FFCB | N/A | $ 238,613 | $ - | $ 238,613 | $ - |
| FHLMC | N/A | 1,734,496 | - | 1,734,496 | - |
| FNMA | N/A | 3,890,501 | - | 3,890,501 | - |
| FHLB | N/A | 318,814 | - | 318,814 | - |
| Negotiable CD | N/A | 732,018 | 732,018 | - | - |
| Non-negotiable CD | N/A | 483,000 | - | - | 483,000 |
| LAIF | N/A | 1,438,816 | - | - | 1,438,816 |
| Money Market Mutual Funds | A | 337,007 | 337,007 | - | - |
| Held by Trustee: | | | | | |
| U.S. Government | | | | | |
| Sponsored Agency Securities: | | | | | |
| FHLMC | N/A | 3,461,499 | - | 3,461,499 | - |
| FNMA | N/A | 996,580 | - | 996,580 | - |
| LAIF | N/A | 44,971 | - | - | 44,971 |
| Money Market Mutual Funds | A | 2,885,400 | 2,885,400 | - | - |
| OPEB Trust Investments: | | | | | |
| PARS Trust Pool | N/A | 2,992,290 | - | - | 2,992,290 |
| | | $ 19,524,005 | $ 3,954,425 | $ 10,640,503 | $ 4,959,077 |

**Concentration of Credit Risk:**

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

| Issuer | Investment Type | |
|---|---|---|
| Federal Home Loan Mortgage Corporation | U.S. Government Sponsored Agency Securities | $5,195,995 |
| Federal National Mortgage Association | U.S. Government Sponsored Agency Securities | $4,887,081 |

2. CASH AND INVESTMENTS (CONTINUED):

**Custodial Credit Risk:**

Custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, the District's deposits were covered by the Federal Deposit Insurance Corporation insurance limits or collateralized as required by California law.

**Investment in State Investment Pool:**

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

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

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

2. CASH AND INVESTMENTS (CONTINUED):

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

Those investment guidelines approved by the District are as follows:

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

Acceptable Investments:

The following is a list of acceptable investments:

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

2. CASH AND INVESTMENTS (CONTINUED):

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

Fixed Income Guidelines:

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

Equity Guidelines:

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

**Fair Value Measurements:**

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

2. CASH AND INVESTMENTS (CONTINUED):

**Fair Value Measurements (Continued):**

The District has the following recurring fair value measurements as of June 30, 2017:

| | Quoted Prices Level 1 | Observable Inputs Level 2 | Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| U.S. Treasury Notes | $ - | $ 3,529,221 | $ - | $ 3,529,221 |
| U.S. Government Sponsored | | | | |
| Agency Securities: | | | | |
| FFCB | - | 238,613 | - | 238,613 |
| FHLMC | - | 1,734,496 | - | 1,734,496 |
| FNMA | - | 3,890,501 | - | 3,890,501 |
| FHLB | - | 318,814 | - | 318,814 |
| Negotiable CD | - | 732,018 | - | 732,018 |
| Held by Trustee: | | | | |
| U.S. Treasury Notes | - | 998,890 | - | 998,890 |
| U.S. Government Sponsored | | | | |
| Agency Securities: | | | | |
| FHLMC | - | 3,461,499 | - | 3,461,499 |
| FNMA | - | 996,580 | - | 996,580 |
| Total Investments | $ - | $ 15,900,632 | $ - | 15,900,632 |
| Investments not subject to hierarchy: | | | | |
| Non-Negotiable CD | | | | 483,000 |
| LAIF | | | | 1,438,816 |
| Money Market Mutual Funds | | | | 337,007 |
| Held By Trustee: | | | | |
| LAIF | | | | 44,971 |
| Money Market Mutual Funds | | | | 2,855,400 |
| OPEB Trust: | | | | |
| PARS Trust Pool | | | | 2,992,290 |
| Total Investments | | | | $ 24,052,116 |

## 3. RESTRICTED ASSETS:

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

| Funding Source | Use | June 30, 2017 |
|---|---|---|
| Deposits from customers | Security deposits for payment of utility bills | $ 186,929 |
| Customer advances | Construction | 372,619 |
| Bond proceeds | Construction projects | 8,357,570 |
| | | $ 8,917,118 |

## 4. CAPITAL ASSETS:

Changes in capital assets for the year ended June 30, 2017, are as follows:

| | Balance July 1, 2016 | Additions | Retirements/ Transfers | Balance June 30, 2017 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 261,340 | $ - | $ - | $ 261,340 |
| Water rights | 5,000 | - | - | 5,000 |
| Construction in progress | 1,131,918 | 2,639,824 | (1,664,006) | 2,107,736 |
| Total capital assets, not being depreciated | 1,398,258 | 2,639,824 | (1,664,006) | 2,374,076 |
| Capital assets, being depreciated: | | | | |
| Intangible plant | 1,022,551 | - | - | 1,022,551 |
| Sources of supply plant | 2,076,956 | 32,297 | - | 2,109,253 |
| Pumping plant | 10,037,819 | - | - | 10,037,819 |
| Transmission and distribution plant | 65,121,930 | 1,538,900 | (4,229) | 66,656,601 |
| Telemetry equipment | 1,489,672 | 50,945 | - | 1,540,617 |
| General plant | 570,451 | 25,896 | (11,708) | 584,639 |
| Office building and equipment | 6,501,662 | 12,313 | (54,787) | 6,459,188 |
| Transportation equipment | 964,038 | 165,282 | (177,692) | 951,628 |
| Communication equipment | 133,902 | - | (105,923) | 27,979 |
| Total capital assets, being depreciated | 87,918,981 | 1,825,633 | (354,339) | 89,390,275 |
| Less accumulated depreciation | (30,564,853) | (2,452,920) | 354,339 | (32,663,434) |
| Total capital assets, being depreciated, net | 57,354,128 | (627,287) | - | 56,726,841 |
| Total Capital Assets, Net | $ 58,752,386 | $ 2,012,537 | $ (1,664,006) | $ 59,100,917 |

## 5. INVESTMENT IN JOINT VENTURES:

**Puente Basin Water Agency:**

The Puente Basin Water Agency (the Agency) was created in 1971 by the execution of a Joint Powers Agreement (the Agreement) between the Rowland Water District and the Walnut Valley Water District. The Agreement was made pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. 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 California Government Code. Complete financial statements for the Agency can be obtained by written request at 271 South Brea Canyon Road, Walnut, California.

The District records its investment in the Puente Basin Water Agency as an other noncurrent asset, investment in joint ventures. The changes in its investment in Puente Basin Water Agency consist of the following as of June 30, 2017:

| | |
|---|---|
| Beginning of year | $ 14,283,471 |
| Contributions | 290,611 |
| Share of income | (8,091) |
| End of year | $ 14,565,991 |

The following is condensed financial information of the investment in Puente Basin Water Agency as of and for the year ended June 30, 2017, including the participants' approximate percentage shares:

| | Amount | Walnut Valley Water District | Rowland Water District |
|---|---|---|---|
| Total assets | $ 67,855,247 | 50.0% | 50.0% |
| Total liabilities | 38,723,269 | 50.0% | 50.0% |
| Total equity | 29,131,978 | 50.0% | 50.0% |
| Billings to participants | 21,837,766 | | |

5. INVESTMENT IN JOINT VENTURES (CONTINUED):

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

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

Each year, every member agency is charged an assessment for their share of the general and administrative costs of the Commission, which is allocated to each agency on a one-third basis. A budget assessment is collected each fiscal year and each agency pays one-third of the amount of the assessment. In addition, a capital surcharge is assessed for the future replacement of the pipeline. For the year ended June 30, 2017, the District remitted assessments totaling $49,727 for their share of general and administrative costs and future replacement costs. Also, the District purchased water totaling $5,103,210 for the Commission during the year ended June 30, 2017.

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 12-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 Commission as an other noncurrent asset, investment in joint ventures, primarily capital assets. The changes in its investment in the Commission consisted of the following:

| | |
|---|---|
| Beginning of year | $ 699,030 |
| Share in income | 8,369 |
| End of year | $ 707,399 |

5. 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 Water Line Commission as of and for the year ended June 30, 2017, including the participants' approximate percentage shares:

| | Amount | City of Pomona | Walnut Valley Water District | Rowland Water District |
|---|---|---|---|---|
| Total assets | $6,258,358 | 27.5% | 44.0% | 28.5% |
| Total liabilities | $3,776,256 | 27.5% | 44.0% | 28.5% |
| Total equity | $2,482,102 | 27.5% | 44.0% | 28.5% |
| Water billings to participants | $19,427,414 | | | |

6. WATER REVENUE REFUNDING BONDS, SERIES 2014A:

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

These bonds mature in various amounts through December 1, 2039. The balance outstanding as of June 30, 2017, is $18,530,000. The bonds were issued at a premium of $1,686,785, which is being amortized over the life of the debt on a straight-line basis. The unamortized premium outstanding as of June 30, 2017, is $1,515,112.

Interest is payable semiannually on December 1 and June 1 at rates ranging from 2.00% to 5.00%. The installment payments on these bonds are secured by a first priority lien on the net revenues of the District. The following is a summary of the changes in Water Revenue Refunding Bonds, Series 2014A for the year ended June 30, 2017:

| | Balance at June 30, 2016 | Additions | Reductions | Balance at June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Water Revenue Refunding Bonds, Series 2014A | $ 19,025,000 | $ - | $ (495,000) | $ 18,530,000 | $ 510,000 |
| Add: Unamortized Premium | 1,582,026 | - | (66,914) | 1,515,112 | - |
| Total | $ 20,607,026 | $ - | $ (561,914) | $ 20,045,112 | $ 510,000 |

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

Maturities of the Water Revenue Refunding Bonds, Series 2014A and interest payments subsequent to June 30, 2017, are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 510,000 | $ 780,744 | $ 1,290,744 |
| 2019 | 525,000 | 765,219 | 1,290,219 |
| 2020 | 540,000 | 749,244 | 1,289,244 |
| 2021 | 560,000 | 729,944 | 1,289,944 |
| 2022 | 585,000 | 707,044 | 1,292,044 |
| 2023 - 2027 | 3,300,000 | 3,160,894 | 6,460,894 |
| 2028 - 2032 | 3,945,000 | 2,541,878 | 6,486,878 |
| 2033 - 2037 | 4,945,000 | 1,547,375 | 6,492,375 |
| 2038 - 2040 | 3,620,000 | 277,750 | 3,897,750 |
| Total | $ 18,530,000 | $ 11,260,092 | $ 29,790,092 |

7. 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 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, 2012 Series A. Interest is payable semiannually 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 following is a summary of the installment purchase contract for the year ended June 30, 2017:

| | Balance at June 30, 2016 | Additions | Reductions | Balance at June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Installment purchase Contract | $ 18,675,000 | $ - | $ (410,000) | $ 18,265,000 | $ 425,000 |
| Add: Unamortized premium | 1,391,215 | - | (52,339) | 1,338,876 | - |
| Total | $ 20,066,215 | $ - | $ (462,339) | $ 19,603,876 | $ 425,000 |

7. INSTALLMENT PURCHASE CONTRACT PAYABLE (CONTINUED):

Maturities of the installment purchase contract and interest payments subsequent to June 30, 2017, are as follows:

| Year Ending | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 425,000 | $ 725,750 | $ 1,150,750 |
| 2019 | 445,000 | 710,575 | 1,155,575 |
| 2020 | 460,000 | 694,700 | 1,154,700 |
| 2021 | 475,000 | 676,000 | 1,151,000 |
| 2022 | 495,000 | 656,600 | 1,151,600 |
| 2023 - 2027 | 2,800,000 | 2,965,325 | 5,765,325 |
| 2028 - 2032 | 3,300,000 | 2,461,813 | 5,761,813 |
| 2033 - 2037 | 3,885,000 | 1,888,688 | 5,773,688 |
| 2038 - 2042 | 4,855,000 | 912,625 | 5,767,625 |
| 2043 | 1,125,000 | 56,250 | 1,181,250 |
| Total | $ 18,265,000 | $ 11,748,326 | $ 30,013,326 |

8. COMPENSATED ABSENCES:

In accordance with the District's policy, employees may accrue up to 240 hours of vacation. For the year ended June 30, 2017, the total accrued vacation liability for all employees totaled $168,743. 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 an 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 regard to the General Manager's sick leave benefits. The General Manager shall receive the same sick leave benefits, upon the same terms and conditions, as provided to all other District employees. For the year ended June 30, 2017, the total accrued sick leave liability for all employees totaled $131,712.

9. DEFERRED COMPENSATION PLAN:

The District has adopted a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation 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.

## 10. DEFINED BENEFIT PENSION PLANS:

a. General Information about the Pension Plans:

**Plan Descriptions:**

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

**Benefits Provided:**

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

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| | | PEPRA |
| Hire date | Prior to January 1, 2013 | On or After January 1, 2013 |
| Benefit formula | 2%@55 | 2%@62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 8% | 6.25% |
| Required employer contribution rates: | | |
| Normal cost rate | 10.069% | 6.550% |
| Payment of unfunded liability | $165,766 | $8 |

10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

a. General Information about the Pension Plans (Continued):

**Contributions:**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

| | Proportionate Share of Net Pension Liability |
|---|---|
| Miscellaneous | $ 3,934,518 |

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for all Plans as of June 30, 2016 and 2017, is as follows:

| | Miscellaneous |
|---|---|
| Proportion - June 30, 2015 | 0.11112% |
| Proportion - June 30, 2016 | 0.11326% |
| Change - Increase (Decrease) | 0.00214% |

## 10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

For the year ended June 30, 2017, the District recognized pension expense of $597,809. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 371,209 | $ - |
| Differences between actual and expected experience | 12,069 | (2,765) |
| Change in assumptions | - | (114,181) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 188,687 | (47,094) |
| Net differences between projected and actual earnings on plan investments | 594,276 | - |
| Total | $ 1,166,241 | $ (164,040) |

An amount of $371,209 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2018 | $ 114,565 |
| 2019 | 107,124 |
| 2020 | 255,377 |
| 2021 | 153,926 |
| 2022 | - |
| Thereafter | - |

10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Actuarial Assumptions:**

The actuarial method and assumptions used to determine the total pension liability were as follows:

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | (1) |
| Mortality Rate Table | (2) |
| Post-Retirement Benefit Increase | (3) |

(1) Varies by age, service, and type of employment.
(2) The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 Experience Study report (based on CalPERS demographic data from 1997 to 2011) available on CalPERS website.
(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Change of Assumptions:**

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all Plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

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

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

10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

**Discount Rate (Continued):**

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board of Directors effective on July 1, 2015.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 (a) | Real Return Years 11+ (b) |
|---|---|---|---|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 20.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 1.00% | -0.55% | -1.05% |
| Total | 100.00% | | |

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

10. DEFINED BENEFIT PENSION PLANS (CONTINUED):

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

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

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

| | Miscellaneous |
|---|---|
| 1% Decrease | 6.65% |
| Net Pension Liability | $ 6,070,754 |
| | |
| Current Discount Rate | 7.65% |
| Net Pension Liability | $ 3,934,518 |
| | |
| 1% Increase | 8.65% |
| Net Pension Liability | $ 2,169,025 |

**Pension Plans Fiduciary Net Position:**

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

**Subsequent Events:**

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities. For the GASB Statement 68 accounting valuations, the discount rate will move straight to 7% starting with the June 30, 2017, measurement date reports and will result in an increase to employer's total pension liabilities.

c. Payable to the Pension Plans:

At June 30, 2017, the District had no outstanding amount of contributions to the pension plans due for the year ended June 30, 2017.

## 11. 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 25 active employees and 10 retired employees through the ACWA health program. At retirement, the District provides a contribution for the continuation of these coverage's for eligible retirees. Eligibility for a District contribution requires retirement from the District and under CalPERS on or after age 50 with at least 15 years of continuous service. The District provides 100% of the cost of coverage for the retiree and any covered spouse.

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

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis. For the year ended June 30, 2017, the District paid $154,732 in health-care costs for its retirees and their covered dependents. In addition, the District made a $420,000 contribution to a trust account established to fund the District's net OPEB obligation for the year ended June 30, 2017.

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 30 years.

## 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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

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

| | |
|---|---|
| Annual required contribution | $ 422,026 |
| Interest on net OPEB obligation | 7,987 |
| Adjustment to annual required contribution | (8,080) |
| Annual OPEB cost (expense) | 421,933 |
| Implied subsidy | (12,090) |
| Actual contributions made | (574,732) |
| Increase (decrease) in net OPEB obligation | (164,889) |
| Net OPEB obligation - beginning of year | 120,446 |
| Net OPEB Asset - End of Year | $ (44,443) |

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, 2017, 2016, and 2015 were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Costs Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| 6/30/15 | $ 351,251 | $ 154.21% | $ 269,110 |
| 6/30/16 | 418,655 | 135.21% | 120,446 |
| 6/30/17 | 421,933 | 136.21% | (44,443) |

e. Funded Status and Funding Progress:

As of July 1, 2015, the plan was 28.95% percent funded. The actuarial accrued liability for benefits was $6,485,558 and the actuarial value of assets was $1,877,541, resulting in an unfunded actuarial accrued liability (UAAL) of $4,608,017. The estimated covered payroll (annual payroll of active employees covered by the plan) was $2,099,673 and the ratio of the UAAL to the covered payroll was 219.46%.

## 11. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

### e. Funded Status and Funding Progress (Continued):

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding claim costs per retiree, health-care 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The entry-age normal cost method was used for the actuarial valuation as of July 1, 2015. Significant assumptions included a discount rate of 6.5% 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 22 years.

## 12. 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.

12. RISK MANAGEMENT (CONTINUED):

At June 30, 2017, 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 $100,000 per occurrence and has purchased excess insurance coverage up to $150,000,000 (total insurable value of $44,989,422). The District has a $2,500 deductible for buildings, personal property and fixed equipment, a $1,000 deductible for mobile equipment, and a $500 deductible for licensed vehicles.

General Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to of $60,000,000. This program does not have a deductible.

Auto Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to $60,000,000. This program does not have a deductible.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to $60,000,000.

Crime - 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 - The Insurance Authority is self-insured up to $2,000,000 and excess insurance coverage has been purchased up to the statutory limit for workers' compensation coverage. The Insurance Authority is self-insurance up to $2,000,000 and has purchased excess insurance coverage of $2,000,000 for employer's liability coverage.

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.

## 13. UNRESTRICTED NET POSITION:

The District has adopted a policy to designate reserves of unrestricted net position. Total reserves are designated as follows as of June 30, 2017:

| | |
|---|---|
| Designated reserves for: | |
| Operations | $ 2,875,000 |
| Rate stabilization | 761,561 |
| Capital funding including expansion of facilities and future repairs and maintenance | 8,884,879 |
| Total Designated Reserves | 12,521,440 |
| Undesignated net position | 10,930,793 |
| Total Unrestricted Net Position | $ 23,452,233 |

## 14. COMMITMENTS AND CONTINGENCIES:

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

## 15. SUBSEQUENT EVENTS:

Events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosure as of February 20, 2018, which is the date these financial statements were available to be issued.

## 16. RESTATEMENT OF NET POSITION:

The net position as of the beginning of the year has been restated to correct the $300,482 understatement of accounts payable as of June 30, 2016.

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# REQUIRED SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

| Fiscal year ended | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| Measurement period | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Plan's proportion of the net pension liability | 0.04547% | 0.04441% | 0.03764% |
| Plan's proportionate share of the net pension liability | $ 3,934,518 | $ 3,048,469 | $ 2,341,881 |
| Plan's covered - employee payroll | $ 2,099,673 | $ 2,161,937 | $ 2,163,227 |
| Plan's proportionate share of the net pension liability as percentage of its covered - employee payroll | 187.39% | 141.01% | 108.26% |
| Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability | 74.06% | 78.40% | 83.35% |
| Plan's proportionate share of aggregate employer contributions | | | |

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

* - Fiscal year 2015 was the first year of implementation; therefore, only two years is shown.

ROWLAND WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

| | June 30, 2017 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 371,209 | $ 337,455 | $ 334,790 |
| Contributions in relation to the actuarially determined contributions | (371,209) | (337,455) | (334,790) |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| Covered - employee payroll | $ 2,167,973 | $ 2,099,673 | $ 2,161,937 |
| Contributions as a percentage of covered - employee payroll | 17.12% | 16.07% | 15.49% |

Notes to Schedule:

| | |
|---|---|
| Valuation Date | 6/30/2014 |
| Methods and Assumptions Used to Determine Contribution Rates: | |
| Cost-sharing employers | Entry age normal cost method** |
| Amortization method | Level percentage of payroll, closed** |
| Asset valuation method | Market Value*** |
| Inflation | 2.75%** |
| Salary increases | Varies by age, service, and type of employment** |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation** |
| Retirement age | 50 years (2%@55 and 2%@60), 52 years (2%@62)** |
| Mortality | Morality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.** |

* - Fiscal year 2015 was the first year of implementation; therefore, only three years are shown.

** - The valuation for June 30, 2012 and 2013 (applicable to fiscal year ended June 30, 2015 and 2016, respectively), included the same actuarial assumptions

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15-Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 and 2014, valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

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

**Retiree Health Plan**

| Actuarial Valuation Date | | Actuarial Accrued Liability (AAL) (a) | Actuarial Value of Assets (AVA) (b) | Unfunded Actuarial Accrued Liability (UAAL) (a) - (b) | Funded Ratio (b)/(a) | Estimated Annual Covered Payroll (c) | UAAL as a % of Covered Payroll [(a)-(b)]/(c) |
|---|---|---|---|---|---|---|---|
| 07/01/09 | | $ 4,645,724 | $ - | $ 4,645,724 | 0.00% | $ 1,964,000 | 236.54% |
| 07/01/12 | | $ 4,499,844 | $ 404,434 | $ 4,095,410 | 8.99% | $ 2,161,937 | 189.43% |
| 07/01/15 | (1) | $ 6,485,558 | $ 1,877,541 | $ 4,608,017 | 28.95% | $ 2,099,673 | 219.46% |

(1) The changes to the AAL from July 1, 2012 to July 1, 2015, are summarized as follows (in thousands):

| Changes to AAL | AAL |
|---|---|
| AAL as of July 1, 2012 | $ 4,500,000 |
| Expected Benefits Earned, Benefit Payments and Interest | 950,000 |
| Recognition of an Age-Related Implicit Subsidy | 830,000 |
| Revised CalPERS Assumed Mortality Rates | 410,000 |
| Revised Plan Selection and Marriage Assumptions | 360,000 |
| Plan Amendment Change: New Eligibility Ages | 300,000 |
| Revised Health-Care Cost Assumed Trend Rates | 180,000 |
| Revised CalPERS Assumed Retirement Rates | 80,000 |
| Vision Calculation Error Fixed | (70,000) |
| Middle-of-Year Active Decrements | (140,000) |
| Actual 2015 Premium Rates | (1,010,000) |
| Actual Demographic and Other Experience | 96,000 |
| AAL as of July 1, 2015 | $ 6,486,000 |

**OTHER POST-EMPLOYMENT BENEFITS PLAN**
**SCHEDULE OF ANNUAL MONEY-WEIGHTED RETURN ON INVESTMENTS**

| Fiscal Year Ended | Annual Money-Weighted Rate of Return, Net of Investment Expense (1) |
|---|---|
| 6/30/17 | 10.7% |

(1) Ten years of historical information is required by the Governmental Accounting Standards Board Statement No. 74. Fiscal year ended June 30, 2017, was the first year of implementation; therefore, only one year is presented.

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# OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF OTHER OPERATING EXPENSES

For the year ended June 30, 2017

| | | |
|---|---|---|
| Engineering | $ | 12,673 |
| Maintenance and operations | | 28,743 |
| Small tools and supplies | | 24,785 |
| Water tests | | 22,059 |
| Certification, fees, and permits | | 66,164 |
| Water supply planning and development | | 156,653 |
| TOTAL OTHER OPERATING EXPENSES | $ | 311,077 |

ROWLAND WATER DISTRICT

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended June 30, 2017

| | | |
|---|---|---|
| Salaries and wages | $ | 1,043,137 |
| Payroll taxes | | 173,329 |
| Insurance | | 635,235 |
| Automobile expenses | | 58,209 |
| Service charges | | 119,492 |
| Office supplies and expenses | | 243,278 |
| Utilities | | 99,256 |
| Professional services | | 519,568 |
| Membership fees and dues | | 46,156 |
| Conferences and travel | | 54,369 |
| Directors' fees and expenses | | 130,625 |
| Public relations | | 119,179 |
| Repairs and maintenance | | 25,540 |
| Pension plan contributions | | 759,381 |
| Other post-employment benefits | | 409,843 |
| Seminars and training | | 60,119 |
| Conservation rebate program expenses | | 20,290 |
| Taxes, permits, and fees | | 4,244 |
| Uncollectable accounts | | 12,209 |
| Miscellaneous | | 28,540 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | $ | 4,561,999 |

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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*

Board of Directors
Rowland Water District
Rowland Heights, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rowland Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 20, 2018.

## Internal Control over Financial Reporting

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

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

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


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*Offices located in Orange and San Diego Counties*

**Compliance and Other Matters**

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

We noted a certain other matter that we have reported to management and the Board of Directors in a separate letter dated February 20, 2018.

**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 Diehl Evans LLP

Irvine, California
February 20, 2018