

ROWLAND WATER DISTRICT
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
FOR THE YEAR ENDED JUNE 30, 2018

ROWLAND WATER DISTRICT
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rowland Water District
Rowland Heights, California

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Rowland Water District (the District) as of and for the year ended June 30, 2018, 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 opinions.

Opinions

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, 2018, and the respective changes in its financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1d and 16 to the financial statements, the District made a restatement that resulted in a decrease in previously reported net position as a result of implementing Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are 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, the schedule of changes in the net OPEB liability and related ratios, the schedule of contributions for the OPEB plan, and the other post-employment benefit plan's 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 January 11, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
January 11, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

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, 2018. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2018

- The District's total net position decreased by \$1,491,528 or 2.45%.
- During the year, the District's total revenues increased to \$24,890,499 or 13.83%, and total expenses increased to \$22,341,409 or 5.45%.

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.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

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 2018	Fiscal Year 2017	Dollar Change
Assets:			
Current, restricted and noncurrent	\$ 46,587,443	\$ 44,250,892	\$ 2,336,551
Capital assets	59,428,484	59,100,917	327,567
Total Assets	<u>106,015,927</u>	<u>103,351,809</u>	<u>2,664,118</u>
Deferred outflows of resources	<u>5,145,319</u>	<u>4,513,864</u>	<u>631,455</u>
Liabilities:			
Current liabilities	4,829,915	3,859,861	970,054
Noncurrent liabilities	45,598,796	42,948,961	2,649,835
Total Liabilities	<u>50,428,711</u>	<u>46,808,822</u>	<u>3,619,889</u>
Deferred inflows of resources	<u>1,331,252</u>	<u>164,040</u>	<u>1,167,212</u>
Net Position:			
Net investment in capital assets	38,135,541	37,741,060	394,481
Unrestricted	21,265,742	23,151,751	(1,886,009)
Total Net Position	<u>\$ 59,401,283</u>	<u>\$ 60,892,811</u>	<u>\$ (1,491,528)</u>

As can be seen from Table 1, total assets and deferred outflows of resources increased \$3,295,573 from fiscal year 2017 to 2018. Total Net Position saw an decrease of \$1,491,528 or 2.45% from the previous fiscal year.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

NET POSITION (CONTINUED)

A further review shows total liabilities and deferred inflows of resources increased by \$4,787,101 from fiscal year 2017 to 2018. The main reason for this increase was required changes in reporting. The District now lists its Net OPEB liability of \$3,069,931 with total noncurrent liabilities and its deferred amounts from OPEB of \$1,186,860 with total deferred inflows of resources. These amounts total \$4,256,791 and were previously not shown on the statement of net position. The District also had a net pension liability increase of \$673,196 from the previous year.

Large projects completed during fiscal year 2018 included:

Reservoir 6 Rehabilitation:

Rowland Water District determined through inspections that Reservoir 6 was in need of safety, sanitary and security upgrades, along with a complete interior recoating. Reservoir 6 is located at 2024 Tomich Rd., Hacienda Heights, California 91745. J. Colon was awarded the project through a bid process and authorized to make the necessary coating repairs and upgrades. Safety, sanitary, and security enhancements included, the installation of intrusion alarm switches, installation of a new hatch, improvements to the safety gate, adding a fall prevention cable, replacement of the interior ladder, along with recoating the entire interior coating with a multi-coat epoxy system.

RCS Structure – Granby Booster Station:

Rowland Water District started improving water quality at its reservoir sites with portable sheds which contained Residual Control Systems (RCS) equipment to maintain its high standard for water quality. Portable sheds were used initially so operators could move the equipment to the most critical reservoir site for maintaining the best water quality throughout the distribution system. Granby Booster Station was deemed one of these critical sites due to the fact that it sends water into two of our more challenging areas for water quality. The building houses the RCS equipment and chemical storage tanks, and is located at 18940 Granby Place in Rowland Heights, CA 91748.

AMI Conversion:

Rowland Water District determined through failing modules on the current AMR system and numerous rereads on all routes that the District was in need of a new reading system. The most affected areas of the District are routes 201, 221, 801, and 811. Rowland Water District has chosen to install a Master Meter AMI system on all meters in the District.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Revenues:			
Operating revenues	\$ 24,195,942	\$ 21,310,310	\$ 2,885,632
Nonoperating revenues	694,557	555,362	139,195
Total Revenues	<u>24,890,499</u>	<u>21,865,672</u>	<u>3,024,827</u>
Expenses:			
Operating expenses	20,601,457	19,556,341	1,045,116
Nonoperating expenses	1,739,952	1,631,320	108,632
Total Expenses	<u>22,341,409</u>	<u>21,187,661</u>	<u>1,153,748</u>
Change in Net Position	<u>2,549,090</u>	<u>678,011</u>	<u>1,871,079</u>
Beginning Net Position	60,892,811	60,515,282	377,529
Restatement	<u>(4,040,618)</u>	<u>(300,482)</u>	<u>(3,740,136)</u>
Beginning Net Position, as Restated	<u>56,852,193</u>	<u>60,214,800</u>	<u>(3,362,607)</u>
Ending Net Position	<u>\$ 59,401,283</u>	<u>\$ 60,892,811</u>	<u>\$ (1,491,528)</u>

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, a decrease in ending net position of \$1,491,528 occurred in fiscal year 2018.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

NET POSITION (CONTINUED)

A closer examination of the sources of changes in Net Position reveals that the District's total revenues increased by \$3,024,827 or 13.83% in fiscal year 2018. Of the amount, operating revenues increased by \$2,885,632 or 13.54% and its nonoperating revenues increased by \$139,195 or 25.06% 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 increase in nonoperating revenue was the District seeing an increase in interest and dividend income and contributions from developers.

The District's total water sales increased from approximately 10,111 acre feet in fiscal year 2016-2017 to 10,387 acre feet in fiscal year 2017-2018. Most of the increase in revenue can be attributed to the increase in water rate and service charge that became effective on January 1, 2018. The base rate was increased \$0.19 from \$2.43 to \$2.62. The recycled water rate increased \$0.08 from \$1.71 to \$1.79. The District promotes the use of recycled water so there is no tiered rate structure for recycled water. The monthly service charge for standard 5/8" to 3/4" meters increased \$7.11 from \$33.44 to \$40.55. The District continues to use a tiered rate structure that was implemented in January 2009. The tiered rates as of January 2018 for Zone I were a rate of \$2.62 for 1-8 hcf, \$3.34 for 9-15 hcf, and \$4.62 for 16+ hcf. 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 Zonal surcharges is added to the base rate if the property resides in Zone II through Zone VI. The surcharges vary from \$0.16 in Zone II up to \$1.57 for Zone VI.

Nonoperating revenues increased in fiscal year 2018. The District saw interest and dividend income of \$285,990, property tax revenues of \$346,925 and rental/contract income of \$139,328. The District had non-restricted cash, cash equivalents, and investments totaling \$14,888,197 ended fiscal year 2018, an increase of \$1,951,538 from fiscal year 2017. The main cause of the increase is the additional revenue the District received due to the adjustment in the water rate and service charge.

While total revenues increased by \$3,024,827 or 13.83%, total expenses increased by \$1,153,748 or 5.45%. This resulted in a change in net position of \$1,871,079 in fiscal year 2018. While the District saw operating expenses increased \$1,045,116 from fiscal year 2017, Source of Supply cost increased \$666,445 and general and administrative expenses increased \$243,409 which mostly consisted of pension plan contribution expense.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

NET POSITION (CONTINUED)

The average cost of an acre foot of water increased from \$987.00 in 2017 to \$1,010.00 in 2018. Fixed charges decreased \$36,739 or 13.21% from fiscal year 2017 to 2018. General and administrative expenses saw an increase of 5.34%. Depreciation for fiscal year 2018 was \$2,598,348. The District continues to fund depreciation of its assets through its capital improvement plan.

BUDGETARY HIGHLIGHTS

TABLE 3
Budget vs. Actual

	Fiscal Year 2018		
	Actual	Budget	Variance
Revenues:			
Operating revenues	\$ 24,195,942	\$ 21,270,000	\$ 2,925,942
Nonoperating revenues	694,557	575,000	119,557
Total Revenues	<u>24,890,499</u>	<u>21,845,000</u>	<u>3,045,499</u>
Expenses:			
Operating Expenses:			
Source of supply	10,670,626	10,195,000	(475,626)
Pumping and power	1,044,131	1,200,000	155,869
Transmission and distribution	1,106,635	1,265,000	158,365
Customer services	63,695	165,000	101,305
Depreciation expenses	2,598,348	-	(2,598,348)
Other operating expenses	312,614	445,000	132,386
General and administrative expenses	4,805,408	4,776,000	(29,408)
Total Operating Expenses	<u>20,601,457</u>	<u>18,046,000</u>	<u>(2,555,457)</u>
Nonoperating expenses	<u>1,739,952</u>	<u>1,700,000</u>	<u>(39,952)</u>
Total Expenses	<u>22,341,409</u>	<u>19,746,000</u>	<u>(2,595,409)</u>
Change in Net Position	<u>\$ 2,549,090</u>	<u>\$ 2,099,000</u>	<u>\$ 450,090</u>

In looking at Table 3, Budget vs. Actual, the discrepancy in change in net position over budgeted change in net position is \$450,090. Total Revenues shows a positive variance of \$3,045,499. Total operating expenses saw a negative variance of \$2,555,457 when depreciation is not 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 \$39,952.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2018, the District had invested \$59,428,484 in a broad range of Infrastructure as shown in Table 4.

**TABLE 4
Capital Assets**

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Capital assets, not being depreciated:			
Land	\$ 261,340	\$ 261,340	\$ -
Water rights	5,000	5,000	-
Construction in progress	2,681,207	2,107,736	573,471
Total capital assets, not being depreciated	<u>2,947,547</u>	<u>2,374,076</u>	573,471
Capital assets, being depreciated:			
Intangible plant	1,022,551	1,022,551	-
Sources of supply plant	2,109,253	2,109,253	-
Pumping plant	10,667,579	10,037,819	629,760
Transmission and distribution plant	68,297,317	66,656,601	1,640,716
Telemetry equipment	1,540,618	1,540,617	1
General plant	584,639	584,639	-
Office building and equipment	6,472,790	6,459,188	13,602
Transportation equipment	985,914	951,628	34,286
Communication equipment	27,979	27,979	-
Total capital assets, being depreciated	91,708,640	89,390,275	2,318,365
Less accumulated depreciation	<u>(35,227,703)</u>	<u>(32,663,434)</u>	<u>(2,564,269)</u>
Total capital assets, being depreciated, net	<u>56,480,937</u>	<u>56,726,841</u>	<u>(245,904)</u>
Total capital assets, net	<u>\$ 59,428,484</u>	<u>\$ 59,100,917</u>	<u>\$ 327,567</u>

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

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

At the end of fiscal year 2018, the District had noncurrent liabilities totaling \$46,568,796 as shown in Table 5.

TABLE 5
Noncurrent Liabilities

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Refunding Bond Series 2014A	\$ 19,468,198	\$ 20,045,112	\$ (576,914)
Installment purchase contract payable	19,126,537	19,603,876	(477,339)
Compensated absences	296,416	300,455	(4,039)
Net pension liability	4,607,714	3,934,518	673,196
Net OPEB obligation	3,069,931	4,570,547	(1,500,616)
	<u>\$ 46,568,796</u>	<u>\$ 48,454,508</u>	<u>\$ (1,885,712)</u>

The District currently has five sources of Noncurrent Liabilities in 2018. 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 imported 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. 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 2018 to \$4,607,714 an increase of \$673,196 from fiscal year 2017. The District's pension plan is administered by CalPERS. The net OPEB liability refers to Other Post-Employment Benefits that would be owed to employees upon retirement after meeting certain criteria. This is an actuarially determined amount. The net OPEB liability for fiscal year 2018 was \$3,069,931.

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.

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

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 2019, user fees, and charges. A projection is made on the acre feet of water that will be purchased and sold. The District also looks at the increased cost of 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. Some 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 vehicle expenses and insurance coverages. The District's customer base has not changed significantly; therefore, revenue and costs are more easily projected.

TABLE 6
Fiscal Year 2019 Budget vs. Fiscal Year 2018 Actual

	Fiscal Year 2018 Actual	Fiscal Year 2019 Budget	Variance
Revenues:			
Operating revenues	\$ 24,195,942	\$ 22,790,000	\$ (1,405,942)
Nonoperating revenues	626,307	550,000	(76,307)
 Total Revenues	 24,822,249	 23,340,000	 (1,482,249)
Expenses:			
Operating Expenses:			
Source of supply	10,670,626	10,605,000	65,626
Pumping and power	1,044,131	1,280,000	(235,869)
Transmission and distribution	1,106,635	1,405,000	(298,365)
Customer services	63,695	160,000	(96,305)
Depreciation expenses	2,598,348	-	2,598,348
Other operating expenses	312,614	395,000	(82,386)
General and administrative expenses	4,805,408	4,915,000	(109,592)
Total Operating Expenses	20,601,457	18,760,000	1,841,457
Nonoperating expenses	1,739,952	1,700,000	39,952
 Total Expenses	 22,341,409	 20,460,000	 1,881,409
Capital Contributions	68,250	-	(68,250)
 Change in Net Position	 \$ 2,549,090	 \$ 2,880,000	 \$ 330,910

ROWLAND WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2018

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, 2018

ASSETS:

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,878,978
Investments	11,009,219
Accounts receivable, net of allowance for doubtful accounts of \$30,000	3,337,195
Interest receivable	72,893
Supply inventories	263,489
Water in storage	3,669,761
Prepaid items	<u>45,181</u>

TOTAL CURRENT ASSETS	<u>22,276,716</u>
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RESTRICTED ASSETS:

Cash and cash equivalents	1,212,527
Investments	<u>7,844,964</u>

TOTAL RESTRICTED ASSETS	<u>9,057,491</u>
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CAPITAL ASSETS:

Capital assets, not being depreciated	2,947,547
Capital assets, being depreciated, net	<u>56,480,937</u>

TOTAL CAPITAL ASSETS, NET	<u>59,428,484</u>
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OTHER NONCURRENT ASSETS:

Investments in joint ventures	<u>15,253,236</u>
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TOTAL ASSETS	<u>106,015,927</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred amounts from OPEB plans	599,152
Deferred amounts from pension plans	1,346,389
Deferred amounts on refunding	<u>3,199,778</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,145,319</u>
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(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT
STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2018

LIABILITIES:	
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):	
Accounts payable	\$ 2,569,507
Interest payable	124,195
Current portion of installment purchase contract payable	445,000
Current portion of 2014A refunding bonds payable	<u>525,000</u>
	<u>3,663,702</u>
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):	
Refundable customer deposits	186,694
Unearned construction advances	<u>979,519</u>
	<u>1,166,213</u>
TOTAL CURRENT LIABILITIES	<u>4,829,915</u>
NONCURRENT LIABILITIES:	
Compensated absences	296,416
Installment purchase contract payable	18,681,537
2014A refunding bonds payable	18,943,198
Net OPEB liability	3,069,931
Net pension liability	<u>4,607,714</u>
TOTAL NONCURRENT LIABILITIES	<u>45,598,796</u>
TOTAL LIABILITIES	<u>50,428,711</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from OPEB	1,186,860
Deferred amounts from pension plans	<u>144,392</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	1,331,252
NET POSITION:	
Net investment in capital assets	38,135,541
Unrestricted	<u>21,265,742</u>
TOTAL NET POSITION	<u>\$ 59,401,283</u>

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, 2018

OPERATING REVENUES:

Water sales:

Residential	\$ 7,828,962
Business	6,058,449
Public entities	273,525
Industrial	7,319
Reclaimed water	623,705
Other	40,445

Total water sales	14,832,405
-------------------	------------

Water services:

Water service charges	8,482,070
Nonrefundable new service fees	67,129
New service connection fees	297,688
Reconnection fees	36,065
Customer penalties	244,122
Other	236,463

Total water services	9,363,537
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TOTAL OPERATING REVENUES	24,195,942
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OPERATING EXPENSES:

Source of supply	10,670,626
Pumping and power	1,044,131
Transmission and distribution	1,106,635
Customer services	63,695
Depreciation expense	2,598,348
Other operating expenses	312,614
General and administrative expenses	4,805,408

TOTAL OPERATING EXPENSES	20,601,457
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OPERATING INCOME	3,594,485
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(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

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

For the year ended June 30, 2018

NONOPERATING REVENUES (EXPENSES):

Investment income:

Interest and dividend income	\$ 285,990
Realized and unrealized gains (losses) on investments, net	(165,851)
Property tax revenues	346,925
Miscellaneous income	19,915
Rental and contract income	139,328
Interest expense	(1,499,385)
Amortization of debt premium/(discount)	(28,592)
Loss from investments in joint ventures	<u>(211,975)</u>

TOTAL NONOPERATING
REVENUES (EXPENSES)

(1,113,645)

NET INCOME BEFORE
CAPITAL CONTRIBUTIONS

2,480,840

CAPITAL CONTRIBUTIONS:

Contributions from developers	<u>68,250</u>
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CHANGE IN NET POSITION

2,549,090

NET POSITION - BEGINNING OF YEAR, AS RESTATED

56,852,193

NET POSITION - END OF YEAR

\$ 59,401,283

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 24,679,800
Cash payments to suppliers for goods and services	(15,237,918)
Cash payments to employees for services	(2,443,924)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,997,958</u>

CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:

Proceeds from property taxes	346,925
Other receipts	19,915
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>366,840</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(2,925,915)
Principal payments on debt	(935,000)
Interest paid	(1,506,494)
Rental income	139,328
Capital contributions received	68,250
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,159,831)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Contributions to joint ventures	(191,821)
Purchases of investments	(13,670,796)
Proceeds from sale of investments	13,897,575
Investment income	244,616
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>279,574</u>

NET INCREASE IN CASH
AND CASH EQUIVALENTS

2,484,541

CASH AND CASH EQUIVALENTS -
BEGINNING OF YEAR

2,606,964

CASH AND CASH EQUIVALENTS - END OF YEAR

5,091,505

(Continued)

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 3,594,485
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,598,348
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(122,807)
(Increase) decrease in supply inventories	(151,707)
(Increase) decrease in water in storage	5,640
(Increase) decrease in prepaid items	1,011
(Increase) decrease deferred outflows of resources from OPEB	(24,780)
(Increase) decrease in deferred outflows of resources from pension plans	(180,148)
Increase (decrease) in accounts payables	407,058
Increase (decrease) in refundable customer deposits	(235)
Increase (decrease) in compensated absences	(4,039)
Increase (decrease) in unearned construction advances	606,900
Increase (decrease) in net OPEB liability	(1,500,616)
Increase (decrease) in net pension liability	673,196
Increase (decrease) in deferred inflows of resources from OPEB	1,186,860
Increase (decrease) in deferred inflows of resources from pension plans	<u>(19,648)</u>

NET CASH PROVIDED BY
OPERATING ACTIVITIES

6,997,958

NONCASH CAPITAL AND RELATED

FINANCING ACTIVITIES:

Amortization of debt premiums discounts and deferred amount on refunding	<u>\$ 28,592</u>
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NONCASH INVESTING ACTIVITIES:

Loss from investment in joint ventures	<u>\$ (211,975)</u>
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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, 2018

	<u>Other Post-Employment Benefit (OPEB) Trust Fund</u>
ASSETS:	
Investments	<u>\$ 3,605,917</u>
TOTAL ASSETS	<u>3,605,917</u>
NET POSITION:	
Held in trust for OPEB benefits	<u>3,605,917</u>
TOTAL NET POSITION	<u><u>\$ 3,605,917</u></u>

See accompanying notes to basic financial statements.

ROWLAND WATER DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2018

	Other Post-Employment Benefit (OPEB) Trust Fund
	<u> </u>
ADDITIONS:	
Employer contributions	\$ 420,000
Investment income	<u> 203,850</u>
TOTAL ADDITIONS	<u> 623,850</u>
DEDUCTIONS:	
Administrative expense	<u> 10,223</u>
TOTAL DEDUCTIONS	<u> 10,223</u>
CHANGE IN NET POSITION	613,627
NET POSITION - BEGINNING OF YEAR	<u> 2,992,290</u>
NET POSITION - END OF YEAR	<u><u> \$ 3,605,917</u></u>

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

I. 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.

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements

GASB Current Year Standards

In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 by \$4,040,618.

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. This statement did not impact the District.

GASB 85 - Omnibus 2017, effective for periods beginning after June 15, 2017. This statement did not impact the district.

GASB 86 - Certain Debt Extinguishment Issues, effective for periods beginning after June 15, 2017. This statement did not impact the district.

Pending Accounting Standards

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

- 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 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests - an amendment of GASB No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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 and OPEB plans equal to employer contributions made after the measurement date of the net pension and OPEB liabilities.
- 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 from pensions resulting from changes in assumptions. These amounts are amortized over a closed period equal to the average expected remaining services 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.
- Deferred outflow from pensions and OPEB plans 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.

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 and OPEB plans 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Deferred Outflows/Inflows of Resources (Continued)

- Deferred inflow from pensions and OPEB plans 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 OPEB resulting from the difference in projected and actual earnings on investments of the OPEB plan fiduciary net position. These amounts are amortized over five years.

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.

g. Uniform System of Accounts for Water Utility Districts

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

h. Operating Revenues and Expenses

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

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$1,499,385 for the year ended June 30, 2018. No interest has been capitalized as additions to the cost of construction for the year ended June 30, 2018.

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Unearned Construction Advances and Capital Contributions

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

r. Property Taxes

Property tax in California is levied in accordance with Article 13A of the State Constitution at 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, 2018, 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. OPEB Plan

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the City's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

w. 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, 2018, 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	\$ 3,878,978	\$ -	\$ 3,878,978
Investments	11,009,219	3,605,917	14,615,136
Restricted:			
Cash and cash equivalents	1,212,527	-	1,212,527
Investments	7,844,964	-	7,844,964
Total Cash and Investments	<u>\$ 23,945,688</u>	<u>\$ 3,605,917</u>	<u>\$ 27,551,605</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

Cash and Investments (Continued)

Cash and investments as of June 30, 2018, consist of the following:

	District Funds	OPEB Trust	Total
Cash on hand	\$ 400	\$ -	\$ 400
Demand deposits	1,482,674	-	1,482,674
Investments	22,462,614	3,605,917	26,068,531
 Total Cash and Investments	 <u>\$ 23,945,688</u>	 <u>\$ 3,605,917</u>	 <u>\$ 27,551,605</u>

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

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

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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
US Treasury Obligations	5 years	None	None
US 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

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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
US Treasury Obligations	None	None	None
US 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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, 2018.

Investment Type	Remaining Maturity (in Years)				Fair Value Total
	Less Than 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	
District Investments:					
US Treasury Notes	\$ 498,213	\$ 734,658	\$ 240,538	\$ 719,415	\$ 2,192,824
US Government Sponsored Agency Securities:					
FFCB	-	236,210	-	-	236,210
FHLMC	-	542,377	245,380	742,939	1,530,696
FNMA	494,075	-	244,320	1,633,839	2,372,234
FHLB	-	246,280	246,145	1,686,694	2,179,119
Negotiable CD	590,375	629,562	-	-	1,219,937
Medium-Term Notes	349,080	-	388,850	540,271	1,278,201
LAIF	3,456,547	-	-	-	3,456,547
Money Market Mutual Funds	106,380	-	-	-	106,380
Held by Trustee:					
US Treasury Notes	1,490,191	-	-	-	1,490,191
US Government Sponsored Agency Securities:					
FHLMC	1,486,170	-	-	-	1,486,170
FHLB	-	1,500,465	-	-	1,500,465
LAIF	45,502	-	-	-	45,502
Money Market Mutual Funds	3,368,138	-	-	-	3,368,138
OPEB Trust Investments:					
PARS Trust Pool	3,605,917	-	-	-	3,605,917
	<u>\$ 15,490,588</u>	<u>\$ 3,889,552</u>	<u>\$ 1,365,233</u>	<u>\$ 5,323,158</u>	<u>\$ 26,068,531</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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, 2018. US 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, 2018	AAA	AA+	A	Not Rated
District Investments:						
US Government						
Sponsored Agency Securities:						
FFCB	N/A	\$ 236,210	\$ -	\$ 236,210	\$ -	\$ -
FHLMC	N/A	1,530,696	-	1,530,696	-	-
FNMA	N/A	2,372,234	-	2,372,234	-	-
FHLB	N/A	2,179,119	-	2,179,119	-	-
Negotiable CD	N/A	1,219,937	1,219,937	-	-	-
Medium-Term Notes	A	1,278,201	-	439,524	838,677	-
LAIF	N/A	3,456,547	-	-	-	3,456,547
Money Market Mutual Funds	A	106,380	106,380	-	-	-
Held by Trustee:						
US Government						
Sponsored Agency Securities:						
FHLMC	N/A	1,486,170	-	1,486,170	-	-
FHLB	N/A	1,500,465	-	1,500,465	-	-
LAIF	N/A	45,502	-	-	-	45,502
Money Market Mutual Funds	A	3,368,138	3,368,138	-	-	-
OPEB Trust Investments:						
PARS Trust Pool	N/A	3,605,917	-	-	-	3,605,917
		<u>\$ 22,385,516</u>	<u>\$ 4,694,455</u>	<u>\$ 9,744,418</u>	<u>\$ 838,677</u>	<u>\$ 7,107,966</u>

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	US Government Sponsored Agency Securities	\$ 3,016,866
Federal National Mortgage Association	US Government Sponsored Agency Securities	\$ 2,372,234
Federal Home Loan Bank	US Government Sponsored Agency Securities	\$ 3,679,584

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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, 2018, 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.

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

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

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

Acceptable Investments

The following is a list of acceptable investments:

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

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

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

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 quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
US Treasury Notes	\$ -	\$ 2,192,824	\$ -	\$ 2,192,824
US Government Sponsored Agency Securities:				
FFCB	-	236,210	-	236,210
FHLMC	-	1,530,696	-	1,530,696
FNMA	-	2,372,234	-	2,372,234
FHLB	-	2,179,119	-	2,179,119
Negotiable CD	-	1,219,937	-	1,219,937
Medium-term Notes	-	1,278,201	-	1,278,201
Held by Trustee:				
US Treasury Notes	-	1,490,191	-	1,490,191
US Government Sponsored Agency Securities:				
FHLMC	-	1,486,170	-	1,486,170
FNMA	-	1,500,465	-	1,500,465
 Total Investments	 \$ -	 \$ 15,486,047	 \$ -	 15,486,047
 Investments not subject to hierarchy:				
LAIF				3,456,547
Money Market Mutual Funds				106,380
Held by Trustee:				
LAIF				45,502
Money Market Mutual Funds				3,368,138
OPEB Trust:				
PARS Trust Pool				3,605,917
 Total Investments				 \$ 26,068,531

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

3. RESTRICTED ASSETS

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

Funding Source	Use	June 30, 2018
Deposits from customers	Security deposits for payment of utility bills	\$ 186,694
Customer advances	Construction	979,519
Bond proceeds	Construction projects	7,891,278
		<u>\$ 9,057,491</u>

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018, are as follows:

	Balance July 1, 2017	Additions	Retirements/ Transfers	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 261,340	\$ -	\$ -	\$ 261,340
Water rights	5,000	-	-	5,000
Construction in progress	2,107,736	2,745,782	(2,172,311)	2,681,207
	<u>2,374,076</u>	<u>2,745,782</u>	<u>(2,172,311)</u>	<u>2,947,547</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Intangible plant	1,022,551	-	-	1,022,551
Sources of supply plant	2,109,253	-	-	2,109,253
Pumping plant	10,037,819	629,760	-	10,667,579
Transmission and distribution plant	66,656,602	1,640,715	-	68,297,317
Telemetry equipment	1,540,618	-	-	1,540,618
General plant	584,639	-	-	584,639
Office building and equipment	6,459,188	13,602	-	6,472,790
Transportation equipment	951,628	68,365	(34,079)	985,914
Communication equipment	27,979	-	-	27,979
	<u>89,390,277</u>	<u>2,352,442</u>	<u>(34,079)</u>	<u>91,708,640</u>
Total capital assets, being depreciated				
Less accumulated depreciation	<u>(32,663,434)</u>	<u>(2,598,348)</u>	<u>34,079</u>	<u>(35,227,703)</u>
Total capital assets, being depreciated, net	<u>56,726,843</u>	<u>(245,906)</u>	<u>-</u>	<u>56,480,937</u>
Total Capital Assets, Net	<u>\$ 59,100,919</u>	<u>\$ 2,499,876</u>	<u>\$ (2,172,311)</u>	<u>\$ 59,428,484</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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, 2018:

Beginning of year	\$ 14,565,991
Contributions	
Share of income (loss)	<u>(176,059)</u>
End of year	<u>\$ 14,389,932</u>

The following is condensed financial information of the investment in Puente Basin Water Agency as of and for the year ended June 30, 2018, including the participants' approximate percentage shares:

	<u>Amount</u>	<u>Walnut Valley Water District</u>	<u>Rowland Water District</u>
Total assets	\$ 67,092,894	50.0%	50.0%
Total liabilities	38,313,030	50.0%	50.0%
Total equity	28,779,864	50.0%	50.0%
Billings to participants	16,022,604		

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

5. INVESTMENT IN JOINT VENTURES (CONTINUED)

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

Each year, every member agency is charged an assessment for their share of the general and administrative costs of the Commission, which is allocated 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, 2018, the District remitted assessments totaling \$195,322 for their share of general and administrative costs and future replacement costs. Also, the District purchased water totaling \$5,404,537 for the Commission during the year ended June 30, 2018.

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	\$ 707,399
Share in income	<u>155,905</u>
End of Year	<u><u>\$ 863,304</u></u>

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, 2018, including the participants' approximate percentage shares:

	Amount	City of Pomona	Walnut Valley Water District	Rowland Water District
Total assets	\$ 6,141,582	25.8%	45.1%	29.1%
Total liabilities	\$ 3,174,902	25.8%	45.1%	29.1%
Total equity	\$ 2,966,680	25.8%	45.1%	29.1%
Water billings to participants	\$ 20,041,712			

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

These bonds mature in various amounts through December 1, 2039. The balance outstanding as of June 30, 2018, is \$18,020,000. 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, 2018, is \$1,448,198.

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, 2018:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Water Revenue Refunding Bonds, Series 2014A	\$ 18,530,000	\$ -	\$ (510,000)	\$ 18,020,000	\$ 525,000
Add: Unamortized Premium	1,515,112	-	(66,914)	1,448,198	-
Total	\$ 20,045,112	\$ -	\$ (576,914)	\$ 19,468,198	\$ 525,000

Maturities of the Water Revenue Refunding Bonds, Series 2014A and interest payments subsequent to June 30, 2018, are as follows:

Year Ending	Principal	Interest	Total
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	610,000	683,144	1,293,144
2024 - 2028	3,425,000	3,037,219	6,462,219
2029 - 2033	4,105,000	2,388,284	6,493,284
2034 - 2038	5,195,000	1,293,875	6,488,875
2039 - 2040	2,475,000	125,375	2,600,375
Total	\$ 18,020,000	\$ 10,479,348	\$ 28,499,348

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

7. INSTALLMENT PURCHASE CONTRACT PAYABLE (CONTINUED)

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, 2018:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018	Due Within One Year
Installment purchase Contract	\$ 18,265,000	\$ -	\$ (425,000)	\$ 17,840,000	\$ 445,000
Add: Unamortized premium	1,338,876	-	(52,339)	1,286,537	-
Total	\$ 19,603,876	\$ -	\$ (477,339)	\$ 19,126,537	\$ 445,000

Maturities of the installment purchase contract and interest payments subsequent to June 30, 2018, are as follows:

Year Ending	Principal	Interest	Total
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	515,000	636,400	1,151,400
2024 - 2028	2,905,000	2,860,375	5,765,375
2029 - 2033	3,405,000	2,359,456	5,764,456
2034 - 2038	4,035,000	1,736,719	5,771,719
2039 - 2043	5,105,000	663,625	5,768,625
Total	\$ 17,840,000	\$ 10,994,450	\$ 28,834,450

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, 2018, the total accrued vacation liability for all employees totaled \$158,364. Also, in accordance with the District's policy, employees may accrue unlimited sick time. 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

8. COMPENSATED ABSENCES (CONTINUED)

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, 2018, the total accrued sick leave liability for all employees totaled \$138,052.

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

a. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	PEPRA On or After January 1, 2013
Hire date		
Benefit formula	2.5%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates:		
Normal cost rate	10.11%	6.533%
Payment of unfunded liability	\$ 199,494	\$ 164

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, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 4,607,714</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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, 2017, 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, 2016, rolled forward to June 30, 2017, 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:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.11326%
Proportion - June 30, 2017	0.11689%
Change - Increase (Decrease)	0.00363%

For the year ended June 30, 2018, the District recognized pension expense of \$887,675. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 414,273	\$ -
Differences between actual and expected experience	6,070	(86,964)
Change in assumptions	753,148	(57,428)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	170,331	-
Net differences between projected and actual earnings on plan investments	<u>2,567</u>	<u>-</u>
Total	<u>\$ 1,346,389</u>	<u>\$ (144,392)</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

An amount of \$414,273 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, 2019. 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
2019	\$ 230,940
2020	409,095
2021	248,816
2022	(101,127)
2023	-
Thereafter	-
Total	<u>\$ 787,724</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	<u>Miscellaneous</u>
Measurement Date	June 30, 2016
Actuarial Cost Method	June 30, 2017
	Entry-Age Normal
	Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
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, 2016 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.

Change of Assumptions

In fiscal year 2017-18, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for each Plan net of investment expenses and without reduction for administrative expenses. 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 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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.

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	6.15%
Net Pension Liability	\$ 7,090,305
Current Discount Rate	7.15%
Net Pension Liability	\$ 4,607,714
1% Increase	8.15%
Net Pension Liability	\$ 2,551,588

Pension Plans Fiduciary Net Position

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

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

10. DEFINED BENEFIT PENSION PLANS (CONTINUED)

c. Payable to the Pension Plans

At June 30, 2018, the District had no outstanding amount of contributions to the pension plans due for the year ended June 30, 2018.

11. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

a. Plan Description

The District has an agent multiple-employer other post-employment benefit plan that provides medical, dental, and vision coverage to 24 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.

An employee may also be eligible for retiree medical, dental, and vision benefits if, at the time of retirement from the District, the employee has at least twenty five (25) years of service in the water utility industry, has been employed by the District for a minimum continuous period of five (5) years, and has attained a minimum age of fifty (50) years. For purposes of this benefit, "retirement from the District" means the employee's effective retirement date is within 120 days of separation from employment with the District and the employee receives either a service or disability retirement allowance from CalPERS resulting from his or her service to the District.

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; however, recently contributions have been made to an OPEB Trust.

c. Contributions

Benefit provisions and contribution requirements are established and may be amended through agreements and memorandums of understanding between the District and its employees. The plan does not require employee contributions. Administrative costs of this plan are financed by the District.

The annual contribution is based on the actuarially determined contributions. For fiscal year ended June 30, 2018, the District's contributions totaling \$599,152 included \$420,000 placed in its PARS OPEB Trust, \$160,068 in current year premium payments, and an implied subsidy of \$19,084.

d. Accounting for the Plan

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

e. Method Used to Value Investments

Investments are reported in the accompanying financial statements at fair value, which is 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 measure date.

Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

f. Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Market value of assets as of the measurement date
Actuarial Assumptions:	
Discount Rate	6.50%
Long-Term Expected	
Rate of Return on Investments	6.50%
Inflation	2.26%
Payroll increases	3.25%
Healthcare Trend Rates	8.00% trending down to 5.0% by 2031 and later
Mortality, Disability, Termination, Retirement	CalPERS 2014 Mortality tables

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

f. Total OPEB Liability (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
PARS OPEB Trust:		
Equity	48.25%	5.65%
Fixed Income	45.00%	1.39%
Real Estate Investment Trusts	1.75%	5.06%
Commodities	5.00%	-0.26%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that the City's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

g. Changes in the Total OPEB Liability

The changes in the total OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016 (Measurement Date)	\$ 6,882,125	\$ 2,311,578	\$ 4,570,547
Changes in the Year:			
Service cost	121,597	-	121,597
Interest on the total OPEB liability	450,304	-	450,304
Differences between actual and expected experience	(710,721)	-	-
Changes in assumptions	(526,713)	-	(526,713)
Contributions - employer	-	574,372	(574,372)
Net investment income	-	261,561	(261,561)
Benefit payments	(154,372)	(154,372)	-
Administrative expenses	-	(850)	850
Net Changes	(819,905)	680,711	(1,500,616)
Balance at June 30, 2017 (Measurement Date)	\$ 6,062,220	\$ 2,992,289	\$ 3,069,931

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

g. Changes in the Total OPEB Liability (Continued)

Changes of Assumptions

In fiscal year 2017-18, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current discount rate:

	1% Decrease (5.50%)	Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB Liability	\$ 4,085,843	\$ 3,069,931	\$ 2,256,460

Sensitivity of the Total OPEB Liability to Changes in Medical Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using medical trend rates that are 1-percentage point lower:

	7.00% Decreasing to 4.00%	8.00% Decreasing to 5.00%	9.00% Decreasing to 6.00%
Net OPEB Liability	\$ 2,200,722	\$ 3,069,931	\$ 4,171,916

h. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$260,620. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 599,152	\$ -
Differences between actual and expected experience	-	(636,684)
Changes in assumptions	-	(471,855)
Differences between projected and actual earnings	-	(78,321)
Total	<u>\$ 599,152</u>	<u>\$ (1,186,860)</u>

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

h. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The differences between projected and actual earnings on plan investments is amortized over five years.

\$599,152 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (148,471)
2020	(148,471)
2021	(148,471)
2022	(148,472)
2023	(128,891)
Thereafter	(464,084)

i. Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

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.

At June 30, 2018, 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 \$46,263,235). 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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

12. RISK MANAGEMENT (CONTINUED)

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, 2018:

Designated reserves for:	
Operations	\$ 3,593,750
Rate stabilization	656,320
Capital funding including expansion of facilities and future repairs and maintenance	<u>10,209,418</u>
Total Designated Reserves	14,459,488
Undesignated net position	<u>6,806,254</u>
Total Unrestricted Net Position	<u><u>\$ 21,265,742</u></u>

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.

ROWLAND WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 Heights' 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. This agreement is currently in dispute.

15. SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of January 11, 2019, which is the date these financial statements were available to be issued.

16. RESTATEMENT OF NET POSITION

Restatement of the District's net position as of July 1, 2017 is as follows:

Net position at July 1, 2017, as originally reported	\$ 60,892,811
Implementation of GASB Statement 75 to record the net OPEB liability as of the beginning of the year	<u>(4,040,618)</u>
Net position at July 1, 2017, as restated	<u>\$ 56,852,193</u>

REQUIRED SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.04646%	0.04547%	0.04441%	0.03764%
Plan's proportionate share of the net pension liability	\$ 4,607,714	\$ 3,934,518	\$ 3,048,469	\$ 2,341,881
Plan's covered payroll	\$ 2,167,973	\$ 2,099,673	\$ 2,161,937	\$ 2,163,227
Plan's proportionate share of the net pension liability as percentage of its covered payroll	212.54%	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	73.31%	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 and 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.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

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

ROWLAND WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 414,273	\$ 371,209	\$ 337,455	\$ 334,790
Contributions in relation to the actuarially determined contributions	<u>(414,273)</u>	<u>(371,209)</u>	<u>(337,455)</u>	<u>(334,790)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,279,335	\$ 2,167,973	\$ 2,099,673	\$ 2,161,937
Contributions as a percentage of covered payroll	18.18%	17.12%	16.07%	15.49%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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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	Mortality 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 four years are shown.

** The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal year ended June 30, 2015, 2016, and 2017, 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, 2014, and 2015, valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018, respectively).

ROWLAND WATER DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>
Measurement date	<u>June 30, 2017</u>
Total OPEB Liability:	
Service cost	\$ 121,597
Interest on total OPEB liability	450,304
Differences between expected and actual experience	(710,721)
Changes of assumptions	(526,713)
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(154,372)</u>
Net Change in Total OPEB Liability	(819,905)
Total OPEB Liability - Beginning of Year	<u>6,882,125</u>
Total OPEB Liability - End of Year (a)	<u>6,062,220</u>
Plan Fiduciary Net Position:	
Contributions - employer	574,372
Net investment income	261,561
Administrative expenses	(850)
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(154,372)</u>
Net Change in Plan Fiduciary Net Position	680,711
Plan Fiduciary Net Position - Beginning of Year	<u>2,311,578</u>
Plan Fiduciary Net Position - End of Year (b)	<u>2,992,289</u>
Net OPEB Liability - Ending (a)-(b)	\$ 3,069,931
Plan fiduciary net position as a percentage of the total OPEB liability	49.36%
Covered payroll	\$ 2,174,023
Net OPEB liability as percentage of covered payroll	141.21%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The fiscal year ended June 30, 2018 is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for comparison.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

ROWLAND WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 343,260
Contributions in relation to the actuarially determined contributions	<u>(599,152)</u>
Contribution deficiency (excess)	<u>\$ (255,892)</u>
Covered payroll	\$ 2,285,510
Contributions as a percentage of covered payroll	26.22%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Closed period, level percent of pay
Amortization period	25 years
Asset valuation method	Market value projected to fiscal year-end 2018
Discount rate	6.50%
Inflation	2.26%
Payroll increases	3.25%
Mortality, disability, termination, retirement	Most recent CalPERS valuations.
Healthcare trend rates	8.00% trending down to 5.0% in 2031 and later

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

ROWLAND WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2018

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	10.74%
6/30/18	6.42%

(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 two years is presented.

OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULE OF OTHER OPERATING EXPENSES

For the year ended June 30, 2018

Certification, fees, and permits	\$ 123,376
Water supply planning and development	85,556
Engineering	35,048
Maintenance and operations	24,423
Small tools and supplies	22,894
Water tests	<u>21,317</u>
 TOTAL OTHER OPERATING EXPENSES	 <u><u>\$ 312,614</u></u>

ROWLAND WATER DISTRICT

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended June 30, 2018

Salaries and wages	\$ 1,153,871
Insurance	669,343
Pension plan expense	1,063,009
Other post-employment benefits expense	241,532
Professional services	383,735
Payroll taxes	184,369
Office supplies and expenses	173,016
Directors' fees and expenses	145,771
Miscellaneous	126,670
Public relations	123,499
Utilities	119,135
Service charges	119,022
Automobile expenses	74,131
Seminars and training	50,844
Conferences and travel	46,843
Membership fees and dues	43,648
Conservation rebate program expenses	34,532
Repairs and maintenance	26,601
Uncollectable accounts	14,529
Taxes, permits, and fees	<u>11,308</u>
 TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	 <u>\$ 4,805,408</u>

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 11, 2019.

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 opinions 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.

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 certain other matters that we have reported to management and the Board of Directors in a separate letter dated January 11, 2019.

Purpose of This Report

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

White Nelson Dick Evans LLP

Irvine, California
January 11, 2019