ROWLAND WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2012 AND 2011

ROWLAND WATER DISTRICT

TABLE OF CONTENTS

June 30, 2012 and 2011

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rowland Water District
Rowland Heights, California

We have audited the basic financial statements of the Rowland Water District as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Rowland Water District as of June 30, 2012 and 2011 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

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

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Offices located in Orange and San Diego Counties

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

White Nelson Diehl Evans LLP

Irvine, California
November 13, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2012

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, 2012. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2012

- The District's total net assets decreased by $1,213,479 or 1.92 percent.
- During the year, the District's total revenues increased to $17,214,943 or 4.33 percent, and total expenses increased to $18,592,478 or 9.00 percent.
- Capital Assets, net of related debt increased to $43,615,335 or 3.71 percent over last year.

Fiscal Year 2011

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

NET ASSETS

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

TABLE 1
Condensed Statements of Net Assets

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Fiscal Year 2010 (As Restated)	Dollar Change
Assets:					
Current, restricted and other assets	$ 22,242,610	$ 24,568,109	$ (2,325,499)	$ 25,608,114	$ (1,040,005)
Capital assets	63,167,918	61,887,095	1,280,823	61,894,753	(7,658)
Total Assets	85,410,528	86,455,204	(1,044,676)	87,502,867	(1,047,663)
Liabilities:					
Current liabilities	2,905,496	2,731,921	173,575	2,994,565	(262,644)
Noncurrent liabilities	20,384,189	20,388,961	(4,772)	20,769,681	(380,720)
Total Liabilities	23,289,685	23,120,882	168,803	23,764,246	(643,364)
Net Assets:					
Invested in capital assets, net of related debt	43,615,335	42,055,597	1,559,738	42,102,764	(47,167)
Restricted	1,524,688	1,524,743	(55)	1,833,167	(308,424)
Unrestricted	16,980,820	19,753,982	(2,773,162)	19,802,690	(48,708)
Total Net Assets	$ 62,120,843	$ 63,334,322	$ (1,213,479)	$ 63,738,621	$ (404,299)

NET ASSETS (CONTINUED)

As can be seen from Table 1, total assets decreased by $1,044,676 from fiscal year 2011 to 2012. The majority of this decrease comes from current, restricted and other assets that saw a $2,325,499 or 9.47% decrease from fiscal year 2011. This decrease was caused by a reduction in the District's cash reserves that was used in the purchases of additional water rights and water for storage. Rowland Water District in conjunction with the Puente Basin Water Agency (PBWA) purchased 182.5 acre feet of water rights in the Central Basin. The Central Basin is located in the South Bay Area of Southern California. It consists of the City of Whittier and continues south to Long Beach. It also encompasses the eastern borders of the Norwalk and Downey Areas. The District's cost for the water rights was $1,491,025. The District also purchased 1,636.9 acre feet of Cyclic Storage Water that is being stored in the Main San Gabriel Basin. The Main San Gabriel Basin is located in the San Gabriel Valley in Southern California and encompasses the City of La Verne and includes areas east to Monterey Park. The Cyclic Storage Water was purchased at a cost of $527 per acre foot for a total cost of $862,646. This was the majority of the decrease in total assets for the fiscal year.

When construction projects are completed, they are subsequently capitalized and become depreciating assets. Large projects completed during fiscal year 2012 included:

New Recycled Water Service Connections: Rowland Water District received 100 percent of its potable water supplies from either the Metropolitan Water District of Southern California (MWD) or Three Valleys Municipal Water District (TVMWD). These agencies import and treat water from Northern California or the Colorado River. The District is seeking to reduce its reliance on imported water supplies by diversifying its water supply portfolio and expanding the availability of recycled water service. The District has had eight recycled water customers since 1985 and by securing additional sources and expanding the existing distribution system, recycled service was made available to additional parks, schools, and major commercial corridors. As authorized by the Rowland Water District Board of Directors, district work forces and funds were utilized to convert select non-residential irrigation systems from potable water sources to recycled water sources. The District funded the engineering expenses for preparing irrigation plans and submitted the plans and the required $1,557 application review fee to the Los Angeles County, Department of Public Health. Following LACO-DPH approval, the District purchased all materials necessary for in-house work forces to separate and retrofit existing irrigational systems. Although District policy requires that all cost for new recycled water service requests are borne by the owner/developer, the District established 24 additional recycled water customers during fiscal year 2011-2012. The total number of customers converted to the recycled water is now 108.

NET ASSETS (CONTINUED)

Large projects completed during fiscal year 2012 included (Continued):

Purchase of Groundwater Rights: Rowland Water District (RWD) imports 100% of its potable water supply from Metropolitan Water District (MWD). This water, which is transported from Northern California and the Colorado River, is purchased through Three Valleys Municipal Water District, a wholesale water agency that sells MWD water. It currently costs RWD about $9.3 million to purchase water each year from MWD. MWD has announced increases in its wholesale water rate of five percent (5%) for the next two years and three percent (3%) per year thereafter. With the purchase of 182.5 acre feet of groundwater rights, RWD projects that about fifteen percent (15%) of its drinking water will come from local groundwater sources by the end of 2012. With additional groundwater projects in development, RWD anticipates another forty percent (40%) could be shifted from expensive imported sources. This major investment demonstrates a long-term strategy to diversify water supplies and reduce RWD's vulnerability to potential shortages from any one source. RWD anticipates that it will save approximately $150-$300 per acre foot in direct comparison to water purchased from Metropolitan Water District.

A further review shows total liabilities increased by $168,803 or 0.73% from fiscal year 2011 to 2012. The increase was caused by two main sources. The first is an increase in deferred construction advances. The amount increased by $135,135 or 45.57% from the previous year. Deferred construction advances are funds deposited by contractors for projects being worked on by the District. When these projects are completed, any remaining funds that are not owed to the District or to an outside vendor for work performed are returned to the contractor. When the funds for the project are deposited with the District, they become a liability on the District's books. These funds are earmarked to be used only for the project of the individuals who deposited them. Upon completion of the project, the District reduces the construction advance by the amount of the time and materials/project administration it used for the project and any remaining funds are returned to the depositor. The second is an increase in the District's other post employment benefits (OPEB) obligation. A trust was established in April, 2011 to begin to fund the District's annual required contribution (ARC). The accrued net OPEB obligation was increased by $305,650 or 60.57% from the previous fiscal year.

NET ASSETS (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Fiscal Year 2010 (As Restated)	Dollar Change
Revenues:					
Operating revenues	$ 16,354,144	$ 15,675,202	$ 678,942	$ 14,572,665	$ 1,102,537
Nonoperating revenues	860,799	739,389	121,410	1,100,555	(361,166)
Total Revenues	17,214,943	16,414,591	800,352	15,673,220	741,371
Expenses:					
Operating expenses	17,270,674	16,006,547	1,264,127	14,335,803	1,670,744
Nonoperating expenses	1,321,804	1,050,119	271,685	232,960	817,159
Total Expenses	18,592,478	17,056,666	1,535,812	14,568,763	2,487,903
Income (loss) before Capital Contributions	(1,377,535)	(642,075)	(735,460)	1,104,457	(1,746,532)
Capital contributions	164,056	237,776	(73,720)	155,868	81,908
Change in Net Assets	(1,213,479)	(404,299)	(809,180)	1,260,325	(1,664,624)
Beginning Net Assets, as Restated	63,334,322	63,738,621	(404,299)	62,478,296	1,260,325
Ending Net Assets, as Restated	$ 62,120,843	$ 63,334,322	$ (1,213,479)	$ 63,738,621	$ (404,299)

While the Statement of Net Assets shows the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes. As can be seen in Table 2, Loss before Capital Contributions of $(1,377,535) and Capital Contributions of $164,056 resulted in a decrease in ending net assets of $1,213,479 or 200.14% in fiscal year 2012.

A closer examination of the source of changes in Net Assets reveals that the District's total revenues increased by $800,352 or 4.88% in fiscal year 2012. Of this amount, operating revenues increased by $678,942 or 4.33% and its nonoperating revenues increased by $121,410 or 16.42% in the past fiscal year.

See independent auditors' report.

NET ASSETS (CONTINUED)

The main factor attributing to the increase in operating revenues was an increase in water rate and service charge that became effective on January 1, 2012. The base rate increased $0.11 from $2.19 to $2.30 or 5.02%. Water use over 16 hcf is paid at a higher rate. The monthly service charge for standard 5/8" to 3/4" meters increased $0.69 from $18.62 to $19.31 or 3.71%. The District continues to use conservation rates that were initially implemented in January, 2009. The conversation rates as of January, 2012 were a base rate of $2.30 for 1-16 hcf, $2.61 for 17-23 hcf, and $3.30 for 24+ hcf. The District has six different pumping zones. Pumping charges cover the energy cost to pump water to each zone of elevation over Zone 1. The additional pumping cost is added to the base rate if the property resides in Zone 2 through Zone 6.

Nonoperating revenues also increased significantly in 2012. Investment income increased by $12,934 or 3.41% for fiscal year 2011 to 2012. The District had cash and investments totaling $17,880,056 ending fiscal year, a decrease of $3,729,355 from 2011. Approximately 19% of the District's cash and investments are held in cash, short-term CD's, money market mutual funds, or the State of California Local Agency Investment Fund (LAIF). LAIF saw its yield reduced from 0.45% ended fiscal year 2011 to 0.36% ended fiscal year 2012. Realized and unrealized loss on investments increased by $103,061 or 141%. This is a decrease in the value of the District's bond portfolio as new issues are purchased and lower interest rates. This causes the value of the portfolio to decrease as lower yielding securities replace higher yielding ones in times of declining interest rates. It is important to note that this is a reduction in the unrealized gain or book value of the portfolio only. District securities are not sold for a loss of principal.

Total operating revenues increased by $678,942 or 4.33% while operating expenses increased by 7.90%. This resulted in operating loss of $585,185 in fiscal year 2012. While the District saw total water sales revenue increase by $473,599 or 4.32% from fiscal year 2011, Source of Supply costs increased $489,825 or 5.79% from fiscal year 2011. Source of Supply includes the cost of potable and reclaimed water along with MWD and TVMWD fixed charges. The average cost of an acre foot of water increased 5.17% from $754 in 2011 to $793 in 2012. Fixed charges had no increase from 2011 to 2012. Pumping power cost decreased by $34,353 or 3.96% from fiscal year 2011. These factors along with 13.8% increase in general and administrative expenses saw total operating expenses increase by $1,264,127 from the previous year. It is important to note that depreciation expense is the yearly accumulated depreciation on the District capital assets, not a figure paid by the District for the cost of the depreciated assets. The District does continue to fund 100% of depreciation through its rates and charges.

BUDGETARY HIGHLIGHTS

TABLE 3
Budget vs. Actual

	Fiscal Year 2012		
	Actual	Budget	Variance
Revenues:			
Operating revenues	$ 16,354,144	$ 16,265,000	$ 89,144
Nonoperating revenues	860,799	870,000	(9,201)
Total Revenues	17,214,943	17,135,000	79,943
Expenses:			
Operating Expenses:			
Source of supply	8,953,225	9,020,000	66,775
Pumping and power	834,151	823,000	(11,151)
Transmission and distribution	1,005,971	1,022,000	16,029
Customer services	137,355	148,000	10,645
Depreciation expenses	2,120,426	2,000,000	(120,426)
Other operating expenses	455,365	135,000	(320,365)
General and administrative expenses	3,764,181	3,400,000	(364,181)
Total Operating Expenses	17,270,674	16,548,000	(722,674)
Nonoperating expenses	1,321,804	1,500,000	178,196
Total Expenses	18,592,478	18,048,000	(544,478)
Change in Net Assets	$ (1,377,535)	$ (913,000)	$ (464,535)

In looking at Table 3, Budget vs. Actual, the discrepancy in net income over budgeted net income is $464,535 or (50.88)%. Total Revenues show a positive variance of $79,943 or 4.37% from actual.

Total operating expenses saw a negative variance of $722,674 or 4.37%. This also is a percentage variance within the expected budget range. Nonoperating expenses saw a positive variance of $178,196 or 11.88% from actual. These expenses account for the interest expense and the amortization expense bond issuance costs associated with the Recycled Water Certificates of Participation. Total expenses showed a 3.02% variance above the budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2012, the District had invested $63,167,918 in a broad range of infrastructure as shown in Table 4.

TABLE 4
Capital Assets

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Fiscal Year 2010 (As Restated)	Dollar Change
Capital assets, not being depreciated:					
Land	$ 261,340	$ 261,340	$ -	$ 261,340	$ -
Water rights	1,496,025	5,000	1,491,025	-	5,000
Construction in progress	3,082,493	2,704,517	377,976	8,946,978	(6,242,461)
Total capital assets, not being depreciated	4,839,858	2,970,857	1,869,001	9,208,318	(6,237,461)
Capital assets, being depreciated:					
Intangible plant	877,484	810,935	66,549	125,106	685,829
Sources of supply plant	1,998,543	1,767,023	231,520	1,767,023	-
Pumping plant	10,037,819	10,037,819	-	9,929,673	108,146
Transmission and distribution plant	60,363,747	59,216,182	1,147,565	51,930,126	7,286,056
Telemetry equipment	1,332,302	1,332,302	-	1,332,302	-
General plant	550,403	550,403	-	550,403	-
Office building and equipment	4,321,686	4,231,305	90,381	4,225,972	5,333
Transportation equipment	647,923	651,690	(3,767)	651,690	-
Communication equipment	133,902	133,902	-	133,902	-
Total capital assets, being depreciated	80,263,809	78,731,561	1,532,248	70,646,197	8,085,364
Less accumulated depreciation	(21,935,749)	(19,815,323)	(2,120,426)	(17,959,762)	(1,855,561)
Total capital assets, being depreciated, net	58,328,060	58,916,238	(588,178)	52,686,435	6,229,803
Total capital assets, net	$ 63,167,918	$ 61,887,095	$ 1,280,823	$ 61,894,753	$ (7,658)

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

At the end of fiscal year 2012, the District had noncurrent liabilities totaling $20,684,189 as shown in Table 5.

TABLE 5
Noncurrent Liabilities

	Fiscal Year 2012	Fiscal Year 2011	Dollar Change	Fiscal Year 2010	Dollar Change
Certificates of Participation	$ 19,720,000	$ 20,005,000	$ (285,000)	$ 20,280,000	$ (275,000)
Less: Unamortized discount	(167,417)	(173,502)	6,085	(179,587)	6,085
Net Certificates of Participation	19,552,583	19,831,498	(278,915)	20,100,413	(268,915)
Compensated absences	321,351	337,858	(16,507)	332,016	5,842
Accrued net OPEB obligation	810,255	504,605	305,650	612,252	(107,647)
	$ 20,684,189	$ 20,673,961	$ 10,228	$ 21,044,681	$ (370,720)

The District currently has three sources of Noncurrent Liabilities in 2012. The largest is a Certificate of Participation (COP) that was issued in January 2009. These funds are being used for the expansion of the District's Recycled Water System. The goal is to lower the dependence on import water by producing recycled water at a lower cost. Recycled water can be used for irrigation at school, parks, industrial buildings, etc. The increase in compensated absences is attributed to more sick and vacation time being due to current employees. This could be due to employees selling back or using less sick and vacation time and the District have a higher liability at year end. Compensated absences are District liabilities for accrued sick and vacation time on the books for current employees. These liabilities would have to be paid at the employee's retirement or separation from service. Net OPEB obligations refer to Other Post Employment Benefits that would be owed to employees upon retirement. As discussed in Note 9, this liability arose from the implementation of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". The OPEB obligation is the difference between the actuarially-determined annual required contribution and the actual contributions made. The District currently funds these expenses on a pay-as-you-go basis, but is considering other funding options in the future.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when setting the fiscal year 2013 Budget, user fees, and charges. A projection is made on the amount of acre feet of water that will be purchased and sold. The District also looks at the increase in the Source of Supply. Since the District heavily relies on import water, the costs are directly passed through by Metropolitan Water District and Three Valleys Municipal Water District. Most are fixed costs that do not vary depending upon the amount of water sold. Other expenses are budgeted individually to account for increases in such things as Automobile and Truck Expenses or Workers' Compensation Insurance. The District's customer base has not changed significantly; therefore, revenue and costs are more easily projected.

TABLE 6
Fiscal Year 2013 Budget vs. Fiscal Year 2012 Actual

	Fiscal Year 2012 Actual	Fiscal Year 2013 Budget	Variance
Revenues:			
Operating revenues	$ 16,354,144	$ 17,005,000	$ 650,856
Nonoperating revenues	860,799	785,000	(75,799)
Total Revenues	17,214,943	17,790,000	575,057
Expenses:			
Operating Expenses:			
Source of supply	8,953,225	9,620,000	(666,775)
Pumping and power	834,151	850,000	(15,849)
Transmission and distribution	1,005,971	1,090,000	(84,029)
Customer services	137,355	155,000	(17,645)
Depreciation expenses	2,120,426	-	2,120,426
Other operating expenses	455,365	400,000	55,365
General and administrative expenses	3,764,181	3,900,000	(135,819)
Total Operating Expenses	17,270,674	16,015,000	1,255,674
Nonoperating expenses	1,321,804	1,500,000	(178,196)
Total Expenses	18,592,478	17,515,000	1,077,478
Change in Net Assets	$ (1,377,535)	$ 275,000	$ 1,652,535

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.

BASIC FINANCIAL STATEMENTS

ROWLAND WATER DISTRICT

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 814,890	$ 3,057,927
Investments	14,949,372	16,576,185
Accounts receivable, net of allowance for doubtful accounts of $30,000	2,465,670	2,137,670
Interest receivable	56,456	81,530
Supply inventories	143,595	93,506
Water in storage	1,355,537	301,537
Prepaid expenses	46,906	39,365
TOTAL CURRENT ASSETS	19,832,426	22,287,720
RESTRICTED ASSETS:		
Cash and cash equivalents	2,115,794	1,975,299
CAPITAL ASSETS:		
Capital assets, not being depreciated	4,839,858	2,970,857
Capital assets, being depreciated	80,263,809	78,731,561
Less accumulated depreciation	(21,935,749)	(19,815,323)
TOTAL CAPITAL ASSETS, NET	63,167,918	61,887,095
OTHER NONCURRENT ASSETS:		
Bond issuance costs, net of accumulated amortization	294,390	305,090
TOTAL ASSETS	85,410,528	86,455,204

(Continued)

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

ROWLAND WATER DISTRICT

STATEMENTS OF NET ASSETS
(CONTINUED)

June 30, 2012 and 2011

	2012	2011
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):		
Accounts payable	$ 1,915,569	$ 1,846,709
Interest payable	98,821	149,656
Current portion of certificates of participation	300,000	285,000
	2,314,390	2,281,365
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable	-	55
Refundable customer deposits	159,409	153,939
Deferred construction advances	431,697	296,562
	591,106	450,556
TOTAL CURRENT LIABILITIES	2,905,496	2,731,921
NONCURRENT LIABILITIES:		
Compensated absences	321,351	337,858
Accrued net OPEB obligation	810,255	504,605
Certificates of participation	19,552,583	19,831,498
Less: current portion	(300,000)	(285,000)
TOTAL NONCURRENT LIABILITIES	20,384,189	20,388,961
TOTAL LIABILITIES	23,289,685	23,120,882
NET ASSETS:		
Invested in capital assets, net of related debt	43,615,335	42,055,597
Restricted for debt service	1,524,688	1,524,743
Unrestricted	16,980,820	19,753,982
TOTAL NET ASSETS	$ 62,120,843	$ 63,334,322

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

ROWLAND WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water sales:		
Residential	$ 6,566,375	$ 6,027,091
Business	4,253,065	3,968,865
Public entities	162,548	143,581
Industrial	6,197	12,542
Reclaimed water	419,915	309,875
Other	35,658	508,205
Total water sales	11,443,758	10,970,159
Water services:		
Water service charges	4,623,480	4,383,089
Nonrefundable new service fees	40,870	46,010
Reconnection fees	21,685	24,255
Customer penalties	191,129	196,713
Other	33,222	54,976
Total water services	4,910,386	4,705,043
TOTAL OPERATING REVENUES	16,354,144	15,675,202
OPERATING EXPENSES:		
Source of supply	8,953,225	8,463,400
Pumping and power	834,151	868,504
Transmission and distribution	1,005,971	949,055
Customer services	137,355	151,983
Depreciation expense	2,120,426	1,855,561
Other operating expenses	455,365	410,439
General and administrative expenses	3,764,181	3,307,605
TOTAL OPERATING EXPENSES	17,270,674	16,006,547
OPERATING LOSS	(916,530)	(331,345)

(Continued)

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

ROWLAND WATER DISTRICT

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

For the years ended June 30, 2012 and 2011

	2012	2011
NONOPERATING REVENUES (EXPENSES):		
Investment income:		
Interest and dividend income	$ 391,966	$ 379,032
Realized and unrealized loss on investments	(176,064)	(73,003)
Property tax revenues	255,964	226,424
Gain on disposition of assets	26,128	20,583
Miscellaneous income	186,741	186,353
Interest expense	(1,128,955)	(1,033,334)
Amortization of debt discount and issuance costs	(16,785)	(16,785)
TOTAL NONOPERATING REVENUES (EXPENSES)	(461,005)	(310,730)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,377,535)	(642,075)
CAPITAL CONTRIBUTIONS:		
Contributions from developers	164,056	237,776
CHANGE IN NET ASSETS	(1,213,479)	(404,299)
NET ASSETS - BEGINNING OF YEAR	63,334,322	63,738,621
NET ASSETS - END OF YEAR	$ 62,120,843	$ 63,334,322

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

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 16,031,614	$ 15,946,572
Cash payments to suppliers for goods and services	(13,991,087)	(12,252,728)
Cash payments to employees for services	(1,912,843)	(2,233,704)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	127,684	1,460,140
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from property taxes	255,964	226,424
Other receipts	186,741	186,353
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	442,705	412,777
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(3,401,249)	(1,679,974)
Proceeds from sale of capital assets	26,128	20,583
Change in deferred construction advances	135,135	(69,976)
Principal payments on certificates of participation	(285,000)	(275,000)
Interest paid	(1,179,790)	(1,202,638)
Capital contributions received	164,056	237,776
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,540,720)	(2,969,229)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(4,966,390)	(3,395,794)
Proceeds from sale of investments	6,417,139	3,565,737
Investment income	417,040	388,903
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,867,789	558,846
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,102,542)	(537,466)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,033,226	5,570,692
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,930,684	$ 5,033,226

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

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the years ended June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	$ (916,530)	$ (331,345)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	2,120,426	1,855,561
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(328,000)	50,165
(Increase) decrease in supply inventories	(50,089)	(1,745)
(Increase) decrease in water in storage	(1,054,000)	191,492
(Increase) decrease in prepaid expenses	(7,541)	(890)
Increase (decrease) in accounts payable	68,805	(231,006)
Increase (decrease) in refundable customer deposits	5,470	29,713
Increase (decrease) in compensated absences	(16,507)	5,842
Increase (decrease) in accrued net OPEB obligation	305,650	(107,647)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 127,684	$ 1,460,140
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization of debt discount and issuance costs	$ 16,785	$ 16,785

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

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NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

   a. Nature of Organization:

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

   b. Basis of Presentation:

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

   c. Measurement Focus and Basis of Accounting:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Net Assets:

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

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

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

- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

e. Uniform System of Accounts for Water Utility Districts:

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

f. Operating Revenues and Expenses:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Cash and Cash Equivalents:

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

h. Investments:

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

i. Restricted Assets:

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

j. Accounts Receivable:

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

k. Inventories and Water in Storage:

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

Water in storage is valued at average cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Capital Assets and Depreciation:

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

m. Amortization:

Bond issuance costs and bond discounts are being amortized on the straight-line method over periods not to exceed debt maturities. Amortization expense aggregated $16,785 for both years ended June 30, 2012 and 2011.

n. Capitalized Interest:

The District incurred interest charges on the Certificates of Participation (Note 5) totaling $1,140,715 and $1,201,263 for the years ended June 30, 2012 and 2011, respectively. $11,760 and $167,929 of these amounts have been capitalized as additions to the cost of construction for the years ended June 30, 2012 and 2011, respectively.

o. Restricted Liabilities:

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

p. Deferred Construction Advances and Capital Contributions:

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

q. Property Taxes:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

q. Property Taxes (Continued):

The property tax calendar is as follows:

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

r. Compensated Absences:

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

s. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2012 and 2011, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

t. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2012 and June 30, 2011 are reported in the accompanying combined financial statements as follows:

	2012	2011
Financial Statement Classification:		
Unrestricted:		
Cash and cash equivalents	$ 814,890	$ 3,057,927
Investments	14,949,372	16,576,185
Restricted:		
Cash and cash equivalents	2,115,794	1,975,299
Total cash and investments	$ 17,880,056	$ 21,609,411

Cash and investments as of June 30, 2012 and June 30, 2011 consisted of the following:

	2012	2011
Cash on hand	$ 400	$ 400
Demand deposits	1,306,036	719,509
Time deposits	2,160,000	2,570,000
Investments	14,413,620	18,319,502
Total cash and cash equivalents	$ 17,880,056	$ 21,609,411

See independent auditors’ report.

2. CASH AND INVESTMENTS (CONTINUED):

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

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

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Agency Securities	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
CD Placement Service	5 years	30%	None
Bankers Acceptances	180 days	40%	30%
Reverse Purchase Agreement	92 days	20%	None
Repurchase Agreements	1 year	None	None
Commercial Paper	270 days	25%	10%
Medium-term Notes	5 years	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	None
Bank/Time Deposits	5 years	None	None

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

N/A - Not Applicable

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

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

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

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk:

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

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2012 and 2011.

June 30, 2012

	Remaining Maturity (in Years)				
Investment Type	Less Than 1 year	1 to 2 Years	2 to 3 Years	3 to 5 Years	Fair Value Total
U.S. Treasury Notes	$ 707,050	$ 258,370	$ 529,005	$ 1,031,153	$ 2,525,578
U.S. Government Sponsored Agency Securities:					
Federal Home Loan Bank	1,264,681	514,929	809,416	-	2,589,026
Federal Home Loan Mortgage Corporation	2,280,578	518,065	265,413	971,428	4,035,484
Federal National Mortgage Association	511,755	1,039,177	105,265	1,722,957	3,379,154
Federal Farm Credit Bank	-	260,130	-	-	260,130
LAIF	99,560	-	-	-	99,560
Held by Trustee:					
Money Market Mutual Funds	1,524,688	-	-	-	1,524,688
	$ 6,388,312	$ 2,590,671	$ 1,709,099	$ 3,725,538	$ 14,413,620

June 30, 2011

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

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the Standard and Poor's credit ratings for the Districts investments as of June 30, 2012. U.S. treasury notes and bills are not required to be rated and, therefore, have been excluded from the tables below.

June 30, 2012

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

June 30, 2011

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

See independent auditors' report.

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

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

Issuer	Investment Type	2012	2011
Federal Home Loan Bank	U.S. Government Sponsored Agency Securities	$2,589,026	$4,110,442
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Agency Securities	$4,035,484	$3,397,253
Federal National Mortgage Association	U.S. Government Sponsored Agency Securities	$3,379,154	$3,444,149

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, 2012 and 2011, the District had no uninsured and uncollaterized deposits.

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

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

3. RESTRICTED ASSETS:

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

Funding Source	Use	June 30, 2012	June 30, 2011
Deposits from customers	Security deposits for payment of utility bills	$ 159,409	$ 153,939
Customer advances	Construction	431,697	296,562
Bond proceeds	Debt service	1,524,688	1,524,743
Bond proceeds	Construction of reclaimed water facilities	-	55
		$ 2,115,794	$ 1,975,299

See independent auditors' report.

4. CAPITAL ASSETS:

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

	Balance July 1, 2011	Additions	Retirements Transfers	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 261,340	$ -	$ -	$ 261,340
Water rights	5,000	1,491,025	-	1,496,025
Construction in progress	2,704,517	1,815,860	(1,437,884)	3,082,493
Total capital assets, not being depreciated	2,970,857	3,306,885	(1,437,884)	4,839,858
Capital assets, being depreciated:				
Intangible plant	810,935	66,549	-	877,484
Sources of supply plant	1,767,023	231,520	-	1,998,543
Pumping plant	10,037,819	-	-	10,037,819
Transmission and distribution plant	59,216,182	1,147,565	-	60,363,747
Telemetry equipment	1,332,302	-	-	1,332,302
General plant	550,403	-	-	550,403
Office building and equipment	4,231,305	94,356	(3,975)	4,321,686
Transportation equipment	651,690	-	(3,767)	647,923
Communication equipment	133,902	-	-	133,902
Total capital assets, being depreciated	78,731,561	1,539,990	(7,742)	80,263,809
Less accumulated depreciation	(19,815,323)	(2,120,426)	-	(21,935,749)
Total capital assets, being depreciated, net	58,916,238	(580,436)	(7,742)	58,328,060
Total capital assets, net	$ 61,887,095	$ 2,726,449	$ (1,445,626)	$ 63,167,918

See independent auditors' report.

4. CAPITAL ASSETS (CONTINUED):

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

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

See independent auditors' report.

5. CERTIFICATES OF PARTICIPATION:

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

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

The following is a summary of the changes in Certificates of Participation for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Due Within One Year
Certificates of Participation (COP):					
2008 COP	$ 20,005,000	$ -	$ (285,000)	$ 19,720,000	$ 300,000
Less:					
Unamortized discount	(173,502)	-	6,085	(167,417)	-
TOTAL	$ 19,831,498	$ -	$ (278,915)	$ 19,552,583	$ 300,000

Maturities of the 2008 Certificates of Participation and interest payments subsequent to June 30, 2012 as follows:

Year Ending	Principal	Interest	Total
2013	$ 300,000	$ 1,179,850	$ 1,479,850
2014	315,000	1,165,975	1,480,975
2015	330,000	1,149,850	1,479,850
2016	345,000	1,132,975	1,477,975
2017	365,000	1,114,313	1,479,313
2018 - 2022	2,140,000	5,257,313	7,397,313
2023 - 2027	2,825,000	4,567,869	7,392,869
2028 - 2032	3,805,000	3,587,825	7,392,825
2033 - 2037	5,250,000	2,147,675	7,397,675
2038 - 2040	4,045,000	389,844	4,434,844
Total	$ 19,720,000	$ 21,693,489	$ 41,413,489

See independent auditors' report.

6. COMPENSATED ABSENCES:

In accordance with the District's policy, employees may accrue up to 240 hours of vacation. For the years ended June 30, 2012 and 2011, the total accrued vacation liability for all employees totaled $142,445 and $143,328, respectively.

Also, in accordance with the District's policy, employees may accrue up to 352 hours of sick leave. Upon attaining 352 hours, the employee may exercise a one-time option to exchange sick leave hours for cash or vacation time. Upon separation, retirement or death, an employee shall receive as additional retirement benefit, an amount equal to 50% of accrued hours for unused sick leave pay for up to 352 hours, or 176 hours. The District has modified the Employment Agreement in regards to the General Manager's sick leave benefits. The Manager shall receive the same sick leave benefits, upon the same terms and conditions, as provided to all other District employees, except that upon retirement or other termination of the Manager's employment. The Manager is entitled to receive 100% of accrued sick leave up to 1,000 hours in the event of separation from employment. For the years ended June 30, 2012 and 2011, the total accrued sick leave liability for all employees totaled $178,906 and $194,530, respectively.

7. DEFERRED COMPENSATION PLAN:

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

8. EMPLOYEE RETIREMENT PLAN:

a. Plan Description:

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

b. Funding Policy:

The District contributes all amounts necessary to fund benefits for its employees. The contribution includes an employee portion of 8% of current covered payroll. The District has elected to contribute the employee portion. The District is also required to contribute any actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2012 was 16.193%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The District's contributions to CalPERS for the years ended June 30, 2012, 2011 and 2010, which were all prepaid by the District at the beginning of the year, were $334,641, $230,905, and $203,221, respectively. These contributions were equal to the required contributions for each year.

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

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

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

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

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has been typically funding this OPEB plan on a pay-as-you-go basis. For the years ended June 30, 2012 and 2011, the District paid $117,642 and $118,188, respectively, in health care costs for its retirees and their covered dependents. In addition, on April 11, 2011, the District made a $400,000 contribution to a trust account established to fund the District's net OPEB obligation.

c. Annual OPEB Cost and Net OPEB Obligation:

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

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

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

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

	2012	2011
Annual required contribution	$ 420,952	$ 407,701
Interest on net OPEB obligation	25,230	30,613
Adjustment to annual required contribution	(22,890)	(27,773)
Annual OPEB cost (expense)	423,292	410,541
Actual contributions made	(117,642)	(518,188)
Increase (decrease) in net OPEB obligation	305,650	(107,647)
Net OPEB Obligation - beginning of year	504,605	612,252
Net OPEB Obligation - end of year	$ 810,255	$ 504,605

d. Three-Year Trend Information:

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012, 2011 and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/10	$ 396,376	27.58%	$ 612,252
6/30/11	410,541	126.22%	504,605
6/30/12	423,292	27.79%	810,255

e. Funded Status and Funding Progress:

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

See independent auditors' report.

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

e. Funded Status and Funding Progress (Continued):

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

f. Actuarial Methods and Assumptions:

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

10. JOINT VENTURES:

Puente Basin Water Agency:

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

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

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

Pomona-Walnut-Rowland Joint Water Line Commission:

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

Each year, every member agency is charged an assessment for their share of the general and administrative costs of the Commission which is allocated based on each agency's capacity rights in the pipeline. In addition, a capital surcharge is assessed for the future replacement of the pipeline. For the years ended June 30, 2012 and 2011, the District remitted assessments of $44,106 each year, for their 20.0% capacity rights and their share of future replacement costs. Also, the District purchased water totaling $5,303,632 and $5,583,483 from the Commission during the years end June 30, 2012 and 2011, respectively.

10. JOINT VENTURES (CONTINUED):

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

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

11. RISK MANAGEMENT:

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

At June 30, 2012, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to $50,000 per occurrence and has purchased excess insurance coverage up to $100,000,000 (total insurable value of $32,357,779). The District has a $2,500 deductible for buildings, personal property and fixed equipment, a $1,000 deductible for mobile equipment and a $500 deductible for licensed vehicles.

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

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

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

11. RISK MANAGEMENT (CONTINUED):

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

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

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

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

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

12. UNRESTRICTED NET ASSETS:

The District has adopted a policy to designate reserves of unrestricted net assets. Total reserves were designated as follows as of June 30, 2012 and 2011:

	2012	2011
Designated reserves for:		
Operations	$ 2,902,500	$ 2,902,500
Rate stabilization	1,533,565	2,647,872
Capital funding including expansion of facilities and future repairs and maintenance	11,517,486	14,117,534
Total Designated Reserves	15,953,551	19,667,906
Undesignated net assets	1,027,269	86,076
Total Unrestricted Net Assets	$ 16,980,820	$ 19,753,982

See independent auditors' report.

13. COMMITMENTS AND CONTINGENCIES:

The District has entered into a water production and delivery agreement with another party to receive groundwater produced on behalf of the District. Under the terms of the agreement, the District is required to contribute $2,000,000 to the other party for necessary expansion, rehabilitation and improvements of their facilities as a result of this agreement. The District made one payment in the amount of $660,000 in fiscal year 2011-2012. The remaining $1,340,000 is due upon meeting certain conditions set forth in the agreement.

14. SUBSEQUENT EVENT:

On November 8, 2012, the Puente Basin Water Agency issued Water Revenue Bonds, 2012 Series A (Rowland Water District Project) in the amount of $19,835,000. The bonds were issued to provide funds to finance the construction of certain water system improvements of the Rowland Water District, to fund a reserve for the bonds, and to pay for the costs of issuing the bonds. In connection with this issuance, the District has entered into an installment purchase contract with Puente Basin Water Agency whereby the Agency has agreed to use the 2012 Series A bond proceeds for the payment of the costs and expenses of certain water system improvement projects of the District. In turn, the District has agreed to purchase the water system improvement projects from the Agency in an amount equal to the issued 2012 Series A bonds, plus interest. The installment purchase payments coincide with the payment of debt service on the 2012 Series A bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Retiree Health Plan

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

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULES OF OTHER OPERATING EXPENSES

For the years ended June 30, 2012 and 2011

	2012	2011
Engineering	$ 36,243	$ 5,198
Maintenance and operations	18,669	40,141
Small tools and supplies	23,845	21,024
Water tests	25,761	29,540
Certification, fees and permits	113,023	47,046
Water supply planning and development	237,824	267,490
TOTAL OTHER OPERATING EXPENSES	$ 455,365	$ 410,439

See independent auditors' report.

ROWLAND WATER DISTRICT

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended June 30, 2012 and 2011

	2012	2011
Salaries and wages	$ 914,609	$ 882,417
Payroll taxes	156,215	151,317
Insurance	707,107	587,848
Automobile expenses	90,120	71,634
Service charges	57,777	56,309
Office supplies and expenses	151,817	89,564
Utilities	61,199	54,657
Professional services	351,719	331,881
Membership fees and dues	40,180	38,599
Conferences and travel	40,841	58,930
Directors' fees and expenses	30,492	21,742
Public relations	128,054	52,325
Repairs and maintenance	6,667	6,361
Pension plan contributions	492,030	382,289
Other post employment benefits	423,292	410,541
Seminars and training	57,786	58,721
Conservation rebate program expenses	5,602	9,071
Taxes, permits and fees	6,728	6,261
Miscellaneous	41,946	37,138
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	$ 3,764,181	$ 3,307,605

See independent auditors' report.