NEW ISSUE - FULL BOOK ENTRY ONLY **RATINGS: S&P-"AA-"**
(See "RATING" herein)

In the opinion of Nossaman LLP, Irvine, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxable income, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$20,060,000
ROWLAND WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2014A

Dated: Date of Delivery Due: December 1, as shown on inside cover

The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2014 (the "Indenture") between the Rowland Water District (the "District") and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California (the "Trustee"), and will be secured as described herein. The Bonds are being issued (i) to provide funds to refinance certain obligations of the District, and (ii) to pay certain costs of issuing the Bonds. Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference.

The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the Bonds will be payable on December 1 and June 1 of each year, commencing December 1, 2014, and principal of the Bonds will be paid on the dates set forth in the Maturity Schedule on inside cover hereof. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of $5,000 or in any integral multiples of $5,000. Payments of principal and interest will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

Payment of principal of and interest on the Bonds (the "Debt Service Payments") are payable from Net Revenues of the District's water system (the "Enterprise"). The Debt Service Payments are a special limited obligation of the District, payable from and secured by a pledge of and first lien on all Net Revenues, subject to the parity lien, if any, of any Parity Obligations as provided for in the Indenture (as described herein). **The District is not funding a debt service reserve account for the Bonds.**

The Bonds are subject to redemption prior to maturity as set forth herein. See "THE BONDS -- Redemption of the Bonds" herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM AND SECURED SOLELY BY THE NET REVENUES PLEDGED THEREFOR IN THE INDENTURE AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON ANY PROPERTY OF THE DISTRICT, OR ANY OF THE DISTRICT'S INCOME OR RECEIPTS, EXCEPT THE NET REVENUES. THE BONDS ARE NOT A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE FAITH AND CREDIT OF THE DISTRICT, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS ARE PLEDGED TO THE PAYMENT OF THE BONDS, AND THE DISTRICT IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION THEREFOR. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE DEBT SERVICE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Nossaman LLP, Irvine, California, Bond Counsel. Certain legal matters will be passed upon for the District by Janet Morningstar, a Law Corporation, Newport Beach, California, its general counsel, and by Nossaman LLP, Irvine, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California. It is anticipated that the Bonds in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about September 18, 2014.

MUFG

Date: September 4, 2014

MATURITY SCHEDULE

$10,650,000 Serial Bonds

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	CUSIP®
2014	$550,000	2.000%	0.150%	779657 AA3
2015	485,000	2.000	0.250	779657 AB1
2016	495,000	3.000	0.470	779657 AC9
2017	510,000	3.000	0.760	779657 AD7
2018	525,000	3.000	1.060	779657 AE5
2019	540,000	3.000	1.370	779657 AF2
2020	560,000	4.000	1.700	779657 AG0
2021	585,000	4.000	2.000	779657 AH8
2022	610,000	4.000	2.250	779657 AJ4
2023	630,000	4.000	2.450	779657 AK1
2024	660,000	4.000	2.600	779657 AL9
2025	685,000	4.000	2.850*	779657 AM7
2026	715,000	3.000	3.080	779657 AN5
2027	735,000	3.000	3.270	779657 AP0
2028	765,000	3.125	3.430	779657 AQ8
2029	785,000	3.250	3.560	779657 AR6
2030	815,000	3.500	3.670	779657 AS4

$9,410,000 5.000% Term Bonds Due December 1, 2039, Yield: 3.550%* (CUSIP®: 779657 AT2)

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* Yield to first optional call at par on December 1, 2024.

ROWLAND WATER DISTRICT

BOARD OF DIRECTORS AND OFFICERS

ROWLAND WATER DISTRICT

Szu-Pei Lu, President
John Bellah, Vice President
Anthony J. Lima, Director
Robert W. Lewis, Director
Teresa Rios, Director

DISTRICT MANAGEMENT

Ken Deck, General Manager
Ted A. Carrera, Assistant General Manager
Tom Coleman, Assistant General Manager
Sean S. Henry, Finance Officer

SPECIAL SERVICES

Bond/Disclosure Counsel
Nossaman LLP
Irvine, California

District Counsel
Janet Morningstar, a Law Corporation
Newport Beach, California

Financial Advisor
Urban Futures, Inc.
Orange, California

Verification Agent
Causey, Demgen & Moore Inc.
Denver, Colorado

Trustee/Escrow Agent
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the Rowland Water District (the "District") or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have not been any changes in the affairs of the District since the date hereof. All summaries of the documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF. THE PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The District maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Securities Exchange Commission Rule 15c2-12.

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OFFICIAL STATEMENT

$20,060,000
ROWLAND WATER DISTRICT
WATER REVENUE REFUNDING BONDS
SERIES 2014A

INTRODUCTION

General

The purpose of this Official Statement of the Rowland Water District (the "District") is to furnish information regarding the issuance and sale of $20,060,000 principal amount of Rowland Water District Water Revenue Refunding Bonds, Series 2014A (the "Bonds") pursuant to the provisions of an Indenture of Trust, dated as of September 1, 2014 (the "Indenture") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The Bonds will be issued pursuant to the provisions of the Indenture and Articles 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended (the "Bond Law").

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS" herein.

The District

The Rowland Water District (the "District") was formed in 1953 for the purpose of operating a water system (the "Enterprise") for residents and businesses located within the boundaries of the District. The District's service area encompasses approximately 17.2 square miles and includes certain unincorporated areas of southeastern Los Angeles County, including portions of Rowland Heights, La Puente, Hacienda Heights, the City of Industry and the City of West Covina. The District contains residential, commercial and industrial development. The District's service area has a population of approximately 60,000, and as of June 30, 2014 provided approximately 13,800 water service connections. The District is governed by a five member Board of Directors, elected for 4-year terms.

For other information concerning the District, see "THE DISTRICT AND THE ENTERPRISE" herein. A copy of the audited financial statements of the District for the year ended June 30, 2013 is attached hereto as APPENDIX B.

Purpose

The Bonds are being issued by the District to (i) together with other available funds of the District, prepay the District's obligations under an Installment Purchase Contract, dated as of December 1, 2008 (the "2008 Installment Purchase Contract") with the CSDA Finance Corporation (the "Corporation"), which obligations secure the District's Rowland Water District Certificates of Participation (Recycled Water Project), Series 2008 (the "Prior Obligations"), delivered in the aggregate principal amount of $20,545,000, of which $19,105,000 remains outstanding, and (ii) pay certain costs of issuance of the Bonds (including expenses incurred in connection with the refunding of the Prior Obligations). See "THE REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Prior Obligations were issued to finance certain improvements to the Enterprise. See "THE DISTRICT AND THE

ENTERPRISE" herein for a description of the District's water system. The District is not funding a debt service reserve account for the Bonds.

Security for the Bonds

The Bonds are payable from, and secured by a lien on, the Net Revenues (as described in "SECURITY FOR THE BONDS - General" herein), and from certain interest and other income derived from certain funds and accounts held under the Indenture. Under the Indenture, the District has irrevocably pledged all Net Revenues to the payment of the Debt Service Payments, subject to the terms and conditions of the Indenture. Revenues are held in the Revenue Fund of the District. See "SECURITY FOR THE BONDS" herein.

The District is authorized to issue additional Parity Obligations secured by the Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. Payment of the Debt Service Payments is on a parity with the obligation of the District to pay installment payments under an Installment Purchase Contract, dated as of November 1, 2012, between the District and the Puente Basin Water Agency (the "Agency") securing the Agency's Puente Basin Water Agency Water Revenue Bonds, 2012 Series A (Rowland Water District Project), originally issued in the principal amount of $19,835,000, of which $19,455,000 is currently outstanding (the "2012 Bonds").

The lien of the Bonds is also subject to the parity lien, if any, of any additional obligations (with the 2012 Bonds, the "Parity Obligations") as provided for in the Indenture. See "SECURITY FOR THE BONDS" herein.

Pursuant to the Indenture, the District has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Enterprise. See "SECURITY FOR THE BONDS - Rate Covenant" herein.

No Debt Service Reserve Account

The District is not funding a debt service reserve account for the Bonds, although debt service reserve accounts may be created with respect to the issuance of future Parity Obligations. The owners of the Bonds will not be entitled to amounts on deposit in the reserve accounts established for future Parity Obligations.

Risk Factors

There can be no assurance that the local demand for the services provided by the Enterprise will be maintained at levels described in this Official Statement, or that the District's expenses for operating and maintaining the Enterprise will be consistent with the levels described in this Official Statement. Changes in technology, decreased demand, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand.

See "RISK FACTORS" herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies and changes in law.

See also “STATE AND FEDERAL REGULATORY ACTIVITIES AND LITIGATION” herein for a discussion of potential for litigation regarding restoration of salmon in the San Joaquin River, implementation of the San Joaquin River Restoration Settlement Agreement, and other environmental considerations.

Limited Obligations

THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS OF PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INDENTURE, AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Forward-Looking Statements

This Official Statement contains forward-looking statements, including (i) statements containing projections of Net Revenues and other financial items, (ii) statements of future economic performance of the Enterprise, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, (collectively, the “Forward-Looking Statements”). All statements other than statements of historical facts included in this Official Statement, including without limitation statements under “THE ENTERPRISE” and “SECURITY FOR THE BONDS” regarding the financial position, capital resources and status of the District and the Enterprise are Forward-Looking Statements. Although the District believes that the expectations reflected in such Forward-Looking Statements are reasonable, no assurance can be given that such expectations will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the District (collectively, the “Cautionary Statements”) are disclosed in this Official Statement. All Forward-Looking Statements attributable to the District are expressly qualified in their entirety by the Cautionary Statements.

Summaries Not Definitive

Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference. Definitions of certain terms used in this Official Statement, and the summaries of and references contained herein to the Indenture, the Bonds, the Continuing Disclosure Agreement, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

Copies of the documents described herein will be available at the office of the District, 3021 So. Fullerton Rd., Rowland Heights, CA 91748.

THE REFUNDING PLAN

The District is selling the Bonds, in part, to provide moneys necessary to refund its obligations under the 2008 Installment Purchase Contract and to defease the Prior Obligations. A portion of the proceeds of the Bonds will be used on the Closing Date to establish an escrow fund (the “Escrow Fund”) for the Prior Obligations, to be held in trust by The Bank of New York Mellon Trust Company, N.A., acting as escrow agent for the Prior Obligations (the “Escrow Agent”) under Escrow Instructions between the Authority and the Escrow Agent, dated as of September 1, 2014 (the “Escrow Agreement”). Proceeds deposited into the Escrow Fund will be used to purchase obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest (“Government Securities”). Principal of and interest on the Government Securities will be used by the Escrow Agent to pay the debt service on the Prior Obligations until December 1, 2018, and to prepay the outstanding Prior Obligations on December 1, 2018, at a redemption price equal to 100% of the principal amount thereof as specified in the Escrow Agreement. See “ESTIMATED SOURCES AND USES OF FUNDS” and “VERIFICATION OF MATHEMATICAL ACCURACY” herein. Upon deposit of such proceeds and other moneys into the Escrow Fund, the Prior Obligations will no longer be deemed outstanding.

The moneys and securities held by the Escrow Agent are pledged to the payment of the Prior Obligations. Moneys and Government Securities deposited in the Escrow Fund are not available to pay principal of or interest on the Bonds.

PRIOR OBLIGATIONS TO BE PAID FROM THE ESCROW FUND

Maturity Date (December 1)	Principal Amount	Interest Rate	CUSIP®
2014	$ 330,000	5.00%	779648 AF1
2015	345,000	5.00	779648 AG9
2016	365,000	5.50	779648 AH7
2017	385,000	5.00	779648 AJ3
2018	405,000	5.00	779648 AK0
2019(1)	425,000	5.25	779648 AL8
2020(1)	450,000	5.50	779648 AM6
2021(1)	475,000	5.75	779648 AN4
2022(1)	505,000	5.75	779648 AP9
2023(1)	530,000	5.50	779648 AQ7
2024(1)	565,000	5.75	779648 AR5
2025(1)	595,000	5.75	779648 AS3
2029(1)	2,770,000	6.00	779648 AW4
2035(1)	5,725,000	6.50	779648 BC7
2039(1)	5,235,000	6.25	779648 BG8

(1) To be prepaid on December 1, 2018.

CONTINUING DISCLOSURE

The District has covenanted, pursuant to a Continuing Disclosure Agreement, dated as of September 1, 2014, for the benefit of holders and beneficial owners of the Bonds to provide, or cause to be provided, certain financial information and operating data relating to the District by not later than March 1 in each year following the end of the District’s Fiscal Year (which currently would be June 30), commencing with the report for the Fiscal Year ended June 30, 2014 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with the Municipal Securities Rulemaking Board (the “MSRB”). The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in "APPENDIX D." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

With respect to its prior undertakings under the Rule, within the past five years the District failed to file in a timely manner certain portions of the annual reports, as required by its existing continuing disclosure obligations. As of the date of this Official Statement the District is current on filings in all material respects. Since the issuance of the 2012 Bonds, the District has retained Urban Futures, Inc. to assist with its filing obligations.

THE BONDS

Description of the Bonds

The Bonds shall be delivered in the form of fully registered Bonds, without coupons, in denominations of $5,000 or any integral multiple thereof, and shall be dated the date of initial delivery thereof. The Bonds will mature on the dates and in the amounts set forth on the front cover of this Official Statement. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Bonds, all payments on the Bonds will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See "Book-Entry Only System" below.

Interest on the Bonds shall be payable on December 1 and June 1 of each year, commencing December 1, 2014, and continuing to and including the date of maturity or prior redemption, whichever is earlier. Principal of the Bonds shall become payable on December 1 in each of the years and in the amounts set forth on the inside cover page of this Official Statement. Principal and premium, if any, of the Bonds shall be payable upon presentation and surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

Interest on the Bonds shall be based on a 360-day year composed of twelve 30-day months and shall be payable by check from the Trustee mailed on each Interest Payment Date by first class mail to the registered Owners as of the close of business on the 15th day of the calendar month (whether or not such day is a Business Day) preceding an Interest Payment Date (the "Record Date") at their addresses shown on the registration books maintained by the Trustee. Upon the written request from any Owner of Bonds aggregating at least $1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment Date, by wire in Federal Reserve funds to an account within the United States on the Interest Payment Date, with regard to which such payment is made. See "Book-Entry Only System" below for a description of how interest and principal will be paid while the Book-Entry System is in effect.

Redemption of the Bonds

Extraordinary Casualty Redemption. The Bonds are subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Enterprise, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Optional Redemption. The Bonds maturing on or before December 1, 2024, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after December 1, 2025, are subject to optional redemption on any date on or after December 1, 2024, in whole or in part, from any source of available funds, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date, without a premium.

Sinking Fund Redemption of Bonds. The Bonds maturing December 1, 2039 shall be subject to mandatory sinking fund redemption in part, by lot, commencing on December 1, 2031, from mandatory sinking fund payments set aside in the Payment Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

Sinking Fund Redemption Date (December 1)	Principal Amount To Be Redeemed
2031	$ 845,000
2032	895,000
2033	940,000
2034	985,000
2035	1,035,000
2036	1,090,000
2037	1,145,000
2038	1,205,000
2039 (Maturity)	1,270,000

If some but not all of such Bonds have been redeemed pursuant to optional or extraordinary redemption, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the District.

Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such call and redemption, moneys of the District may be used to purchase Outstanding Bonds. Purchases of Outstanding Bonds may be made by the District prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date.

Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed (except for mandatory sinking fund redemption), the Bonds to be redeemed shall be selected by the Trustee among maturities or mandatory sinking fund redemptions as designated in writing by the District and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the District, the Bonds may be redeemed by any maturity or maturities or mandatory sinking fund redemptions selected by the District, and by lot within a maturity. For the purpose of the selection, all Bonds registered in the name of the same Owner shall be aggregated and treated as a single Bond held by such Owner. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of $5,000. In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

Notice of Redemption; Rescission. When redemption is authorized or required, the Trustee shall give notice (the "Redemption Notice") of the redemption of the Bonds. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed; (b) the date of redemption; (c) the place or places where the redemption will be made, including the name and address of any paying agent; (d) the redemption price; (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed; (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed; and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

At least thirty (30), but not more than forty-five (45), days prior to the redemption date (or immediately upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds), the Trustee shall cause Redemption Notices to be given to the respective Owners of Bonds designated for redemption by first class mail, postage redeemed, at their addresses appearing on the Bond Register maintained by the Trustee.

The District shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. In addition, any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such rescission or cancellation shall not constitute an Event of Default under the Indenture. The District and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Effect of Redemption. If, on said redemption date, moneys sufficient for the redemption of all the Bonds to be redeemed, together with interest to said redemption date shall be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof shall have been given, then, from and after said redemption date, interest with respect to the portion of Bonds to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said redemption date, interest with respect to such portion of Bonds shall continue to be payable until paid at the same rates as they would have been payable had they not been called for redemption.

Issuance of Parity Obligations

The District has covenanted in the Indenture that so long as any Bonds are Outstanding, the District shall not issue or incur any obligations payable from Net Revenues or the Revenue Fund senior or superior to the Debt Service Payments. The District has covenanted in the Indenture that the District may at any time issue Parity Obligations payable from Net Revenues on a parity basis with the Debt Service Payments in such principal amount as shall be determined by the District. The District may issue or incur any such Parity Obligations subject to the following specific conditions which are conditions precedent to the issuance and delivery of such Parity Obligations:

(i) No Event of Default shall have occurred and be continuing; and

(ii) The Net Revenues, calculated in accordance with Generally Accepted Accounting Principles, either (i) as shown by the books of the District for the latest Fiscal Year, as verified by a certificate of a Treasurer, or (ii) as shown by the books of the District for any more recent twelve (12) month period selected by the District, as verified by a certificate or opinion of an Independent Certified Public Accountant employed by the District, plus in either case (at the option of the District) the Additional Revenues, shall be at least equal to one hundred and ten percent (110%) of the amount of Maximum Annual Debt Service; and

(iii) The District may, but is not required to, establish from the proceeds of such Parity Obligations a reserve fund for the security of such Parity Obligations, in an amount then permitted under the Code.

"Additional Revenues" means an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, all as shown by the certificate or opinion of an Independent Financial Consultant.

The provisions of subsection (ii) above shall not apply to any Parity Obligations if (A) all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make any reserve fund deposit) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, (B) at the time of the incurring of such Parity Obligations, the District certifies in writing that maximum annual debt service on the refunding Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds being refunded, and (C) the final maturity of the refunding Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

In order to maintain the parity relationship of the Debt Service Payments to all Parity Obligations permitted hereunder, the District covenants that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Debt Service Payments, and reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Debt Service Payments and not prior thereto; provided that the District shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Debt Service Payments on a timely basis. In such event, the District shall make Debt Service Payments and payments on such Governmental Loan on a pro rata basis.

Subordinate Obligations. Notwithstanding the foregoing, nothing in the Indenture shall be construed as prohibiting the issuance by the District of obligations secured by Net Revenues on a subordinate basis to the Bonds.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX E - BOOK ENTRY PROVISIONS" herein.

Neither the District nor the Trustee can and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District nor the Trustee are responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds received from the sale of the Bonds and other available funds are to be applied as follows:

Sources of Funds:	
Principal Amount of Bonds	$20,060,000.00
Net Original Issue Premium	1,686,784.55
Amount Relating to Prior Obligations	1,499,581.47
TOTAL SOURCES	$23,246,366.02
Uses of Funds:	
Transfer to Escrow Agent(1)	$23,014,683.36
Costs of Issuance(2)	231,682.66
TOTAL USES	$23,246, 366.02

(1) See "THE REFUNDING PLAN" above.

(2) Includes fees of Bond Counsel, Disclosure Counsel and Trustee, Underwriter's discount and other costs of issuing the Bonds.

DEBT SERVICE

The following tables illustrate the annual debt service for the Bonds as of December 1 of each year and the aggregate annual debt service on the Bonds and the 2012 Bonds.

Period Ending (December 1)	Principal	Interest	Total Debt Service
2014	$550,000	$167,077.48	$ 717,077.48
2015	485,000	812,943.76	1,297,943.76
2016	495,000	803,243.76	1,298,243.76
2017	510,000	788,393.76	1,298,393.76
2018	525,000	773,093.76	1,298,093.76
2019	540,000	757,343.76	1,297,343.76
2020	560,000	741,143.76	1,301,143.76
2021	585,000	718,743.76	1,303,743.76
2022	610,000	695,343.76	1,305,343.76
2023	630,000	670,943.76	1,300,943.76
2024	660,000	645,743.76	1,305,743.76
2025	685,000	619,343.76	1,304,343.76
2026	715,000	591,943.76	1,306,943.76
2027	735,000	570,493.76	1,305,493.76
2028	765,000	548,443.76	1,313,443.76
2029	785,000	524,537.50	1,309,537.50
2030	815,000	499,025.00	1,314,025.00
2031	845,000	470,500.00	1,315,500.00
2032	895,000	428,250.00	1,323,250.00
2033	940,000	383,500.00	1,323,500.00
2034	985,000	336,500.00	1,321,500.00
2035	1,035,000	287,250.00	1,322,250.00
2036	1,090,000	235,500.00	1,325,500.00
2037	1,145,000	181,000.00	1,326,000.00
2038	1,205,000	123,750.00	1,328,750.00
2039	1,270,000	63,500.00	1,333,500.00
TOTALS	$20,060,000	$13,437,552.62	$33,497,552.62

Year Ending (December 1)	2012 Bonds Debt Service	Bonds Debt Service	Total Debt Service
2014	$1,155,200	$ 717,077	$1,872,277
2015	1,157,500	1,297,944	2,455,444
2016	1,160,650	1,298,244	2,458,894
2017	1,159,250	1,298,394	2,457,644
2018	1,162,250	1,298,094	2,460,344
2019	1,163,900	1,297,344	2,461,244
2020	1,160,500	1,301,144	2,461,644
2021	1,161,500	1,303,744	2,465,244
2022	1,161,700	1,305,344	2,467,044
2023	1,166,100	1,300,944	2,467,044
2024	1,164,500	1,305,744	2,470,244
2025	1,162,100	1,304,344	2,466,444
2026	1,163,900	1,306,944	2,470,844
2027	1,160,750	1,305,494	2,466,244
2028	1,162,150	1,313,444	2,475,594
2029	1,162,950	1,309,538	2,472,488
2030	1,163,150	1,314,025	2,477,175
2031	1,162,750	1,315,500	2,478,250
2032	1,165,875	1,323,250	2,489,125
2033	1,167,313	1,323,500	2,490,813
2034	1,167,938	1,321,500	2,489,438
2035	1,167,750	1,322,250	2,490,000
2036	1,175,750	1,325,500	2,501,250
2037	1,174,000	1,326,000	2,500,000
2038	1,175,250	1,328,750	2,504,000
2039	1,179,250	1,333,500	2,512,750
2040	1,180,750	--	1,180,750
2041	1,179,750	--	1,179,750
2042	1,181,250	--	1,181,250
TOTALS	$33,825,675	$33,497,553	$67,323,228

SECURITY FOR THE BONDS

General

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS IS A LIMITED OBLIGATION OF THE DISTRICT PAYABLE FROM NET REVENUES AND IS NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE DISTRICT OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES PLEDGED UNDER THE INDENTURE. THE FULL FAITH AND CREDIT OF THE DISTRICT IS NOT PLEDGED FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS, OTHER THAN THE NET REVENUES AND CERTAIN OTHER AMOUNTS ON DEPOSIT UNDER THE INDENTURE, ARE PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. THE PAYMENT OF THE PRINCIPAL OF OR INTEREST WITH RESPECT TO THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY

FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Pledge of Net Revenues

The Bonds are secured by a pledge of the Net Revenues received by the District from the operation of the Enterprise, as those terms are defined below and upon all money and securities on deposit in certain accounts under the Indenture. The obligation of the District to make Debt Service Payments from Net Revenues is absolute and unconditional, and until such time as all Debt Service Payments shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made), the District will not, under any circumstances, discontinue, abate or suspend any payment due under the Indenture when due, whether or not the Enterprise is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Indenture for any cause whatsoever.

All Net Revenues are irrevocably pledged by the District to the payment of the Debt Service Payments and debt service on Parity Obligations (including payments securing the 2012 Bonds) as provided in the Indenture, and the Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Net Revenues, there may be apportioned such sums for such purposes as are expressly permitted by the Indenture, including payment of debt service on any Parity Obligations. This pledge shall constitute a first lien on the Net Revenues for the payment of the Debt Service Payments and debt service on any Parity Obligations in accordance with the Indenture. **The Bonds are not secured by a lien on the Enterprise or any other property of the District.**

In the Indenture, the District covenants that, so long as any Bonds are outstanding, the District will not issue or incur any obligations payable from Net Revenues superior to the payment of the Debt Service Payments. The District is authorized to issue additional Parity Obligations secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See “THE BONDS – Issuance of Parity Obligations” herein. The District is also authorized to issue subordinate debt secured by Net Revenues.

“Net Revenues” are Revenues less the Maintenance and Operation Costs, as such terms are defined below. The “Enterprise” means the District’s water system, including all facilities, works, properties and structures of the District for the treatment, transmission and distribution of potable and non-potable water, including all contractual rights to water supplies, transmission capacity supply, easements, rights-of-way and other works, property or structures necessary or convenient for such facilities, together with all additions, betterments, extension and improvements to such facilities or any part thereof hereafter acquired or constructed. See “THE DISTRICT AND THE ENTERPRISE” herein for a description of the Enterprise.

The District has covenanted to fix, prescribe and collect rates and charges for the Enterprise sufficient to annually provide Net Revenues equal to 110% of the Debt Service

Payments and the payment of debt service on any Parity Obligations, plus certain reserves. See “Rate Covenant” below.

“Maintenance and Operation Costs” of the Enterprise means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, including the cost of water, and (b) administrative costs of the District attributable to the Enterprise and the financing thereof; but excluding (x) depreciation, replacement and obsolescence charges or reserves therefor, (y) in any Fiscal Year prior to setting aside an amount equal to the Debt Service Payments for such Fiscal Year, capital expenditures other than as set forth in subsection (a) above, and (z) amortization of intangibles or other bookkeeping entries or a similar nature.

“Revenues” means all gross income and revenue received or receivable by the District from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including fees for connecting to the Enterprise) received by the District for Water Service and all other income and revenue howsoever derived by the District from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, are not Revenues and are not subject to the lien of the Indenture. Revenues shall include amounts on deposit in the Revenue Fund which have been previously released from the pledge and lien of this Indenture. Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

Debt Service Payments

The Indenture requires the District to pay all Debt Service Payments directly to the Trustee on the applicable Due Date. The District is required to pay Debt Service Payments without offset or deduction of any kind, other than certain amounts on deposit with the Trustee in the Payment Fund. “Due Date” means each November 15 and May 15, commencing November 15, 2014. See APPENDIX A hereto. See also “Pledge of Net Revenues” above.

The District’s obligation to make Debt Service Payments is a special obligation of the District payable solely from the Net Revenues and other funds provided for in the Indenture. Neither the Bonds nor the obligation of the District to make Debt Service Payments constitutes a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction or an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

Rate Covenant

The District has covenanted in the Indenture that it will, at all times while any of the Bonds remain Outstanding, take the necessary and appropriate actions to fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the order below set forth:

(1) All Maintenance and Operation Costs of the Enterprise;

(2) The Debt Service Payments and all payments (including payments of interest and under reimbursement agreements) with respect to Parity Obligations as they become due and payable;

(3) Amounts necessary to bring the amount of funds in any reserve fund up to the required amount; and

(4) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from the Revenues during such Fiscal Year.

Furthermore, the District has covenanted to take the necessary and appropriate actions to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to one hundred and ten percent (110%) of the aggregate amount of the Debt Service Payments, and principal of and interest on any Parity Obligations coming due and payable during such Fiscal Year. The District may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements set forth in this paragraph.

If the District violates the rate covenants, such violation shall not, in and of itself, be a default under the Indenture and shall not give rise to a declaration of an Event of Default if (i) the coverage calculated does not decrease below 1.00 times the sum of (A) annual Debt Service Payments, (B) payments on Parity Obligations, (C) amounts sufficient to maintain any reserve fund at the required level, and (D) Maintenance and Operation Costs and, (ii) within 120 days after the date such violation is discovered, the District hires an Independent Financial Consultant or an Independent Engineer to review the revenues and expenses of the Enterprise and abides by such consultant's recommendations to revise the schedule of rates, fees and charges and to revise any Maintenance and Operation Costs insofar as practicable and to take such other actions as are necessary so as to produce Net Revenues to cure such violation for future compliance; provided, however, that if the District does not cure such violation within twelve (12) months succeeding the date such violation is discovered, an Event of Default shall be deemed to have occurred.

See "RISK FACTORS – Proposition 218" herein for a discussion of certain procedural matters and possible limitations relating to increases of the Districts rates and charges.

No Debt Service Reserve Account

The District is not funding a debt service reserve account for the Bonds, although debt service reserve accounts may be created with respect to the issuance of future Parity Obligations. The owners of the Bonds will not be entitled to amounts on deposit in the reserve accounts, if any, established for such future Parity Obligations.

Application of Revenues

The District has covenanted that all Revenues, when and as received, will be received and held by the District in trust for the benefit of Bondholders and payments with respect to Parity Obligations, will be deposited by the District in the Revenue Fund, and will be accounted for and held in trust for the benefit of Bondholders and for payments with respect to Parity Obligations in the Revenue Fund. All Revenues in the Revenue Fund shall be set aside by the District or deposited by the District with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

(1) **Maintenance and Operation Costs**. The District agrees and covenants to pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs of the Enterprise, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) **Debt Service Funds.** Debt Service Payments and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms of the Indenture and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) **Reserve Funds.** Payments required with respect to Parity Obligations, to replenish debt service reserve funds established for such Parity Obligations shall be made in accordance with the terms of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) **General Expenditures.** All Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the District, including payment of other costs of the Enterprise or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds.

Enterprise Demand and Growth

There can be no assurance that the local demand for the services provided by the Enterprise will be maintained at levels described in this Official Statement under the heading "THE DISTRICT AND THE ENTERPRISE." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the District's rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. There can be no assurance that any other entity with regulatory authority over the Enterprise will not adopt further restrictions on operation of the Enterprise.

Enterprise Expenses

There can be no assurance that the District's expenses for the Enterprise will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Parity Obligations

Although the District has covenanted not to issue additional obligations payable from Net Revenues senior to the Debt Service Payments, the Indenture permits the issuance by the District of certain indebtedness which may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Debt Service Payments, if certain coverage and other tests are met (see "THE BONDS – Issuance of Parity Obligations" herein). These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued or incurred, the debt service coverage for the Debt Service Payments securing the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Debt Service Payments and such additional indebtedness.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes, assessments, fees and charges imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges, except those which are pledged to the repayment of debt. If such a repeal or reduction in District fees or charges were to occur, and it was held that any such taxes, assessments, fees or charges were not pledged to any debt repayment, the District's ability to make Debt Service Payments could be adversely affected.

In addition, while the matter is not free from doubt, Proposition 218 imposed restrictions on the levy of charges for "property-related services." In July 2006 the California Supreme Court confirmed that a public agency's charges for ongoing water delivery are "fees and charges" within the meaning of Proposition 218. As a result, voters within the boundaries of the District could adopt an initiative measure that reduced or repealed water rates and charges levied by the District, although it is not clear (and has not been determined by State courts) whether such action would be enforceable where such fees and charges are pledged to the repayment of indebtedness.

The District's current revenue rates and charges were adopted under Proposition 218, using the alternative notice procedure provided by California Government Code Section

53755. The District believes that its fees for water service will not be adversely affected by the application of the procedural requirements of Proposition 218, and that Proposition 218 would not have any immediate adverse effect on its ability to operate its Enterprise. However, there can be no assurance of the availability of remedies to protect fully the interest of the holders of the Bonds.

Constitutional Limit on Appropriations, Fees and Charges

If a portion of the Enterprise rates or connection charges were determined by a court to exceed the reasonable costs of providing service, any fee which the District charges may be considered to be a "special tax," which under Articles XIIIA or XIIID of the California Constitution must be authorized by a two-thirds vote of the affected electorate. This requirement is applicable to the District's rates for service provided by the Enterprise. The reasonable cost of service provided by the Enterprise has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the State courts have determined that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing Enterprise improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in the Government Code of the State of California (Section 66000 *et seq*.).

Under Article XIIIB of the California Constitution, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation," which consists of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the "appropriations limit" is to be based on certain Fiscal Year 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIIIB, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District is of the opinion that the rates and use charges imposed by the District in connection with the Enterprise do not exceed the costs it reasonably bears in providing such services.

Limited Recourse on Default

If the District defaults on its obligation to make Debt Service Payments, the Trustee has the right to accelerate the total unpaid principal amounts of the Debt Service Payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Net Revenues to pay the accelerated Debt Service Payments and payments with respect to Parity Obligations.

No Debt Service Reserve Account

The District is not funding a debt service reserve account for the Bonds, although debt service reserve accounts may be created with respect to the issuance of future Parity Obligations. The owners of the Bonds will not be entitled to amounts on deposit in the reserve accounts established for such future Parity Obligations.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

No Obligation to Tax

The obligation of the District to pay the Debt Service Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Debt Service Payments does not constitute a debt or indebtedness of any District, the State or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the State electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues and adversely affecting the security of the Bonds.

Geologic, Topographic and Climatic Conditions

The value of the Enterprise, and the ability to generate Revenues, is contingent upon the ability of the District to deliver water to its customers. The financial stability of the District can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and tornadoes). The District is in an active geological area, and does not carry earthquake insurance on the Enterprise..

Engineering standards require that some of these factors be taken into account, to a limited extent, in the design of improvements, including the Enterprise. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the District. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur which may result in damage to improvements in varying degrees, and such damage may entail significant repair or replacement costs, and there can be no assurance that such repair or replacement will occur. Under any of these circumstances, the public and private improvements within the District in general may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Major portions of the California State Water Project (the "State Water Project") delivery system are located parallel to and near the San Andreas Fault and other faults. The State Water Project facilities are designed to withstand earthquakes without major damage. Inspections following the June 1992 "Landers" earthquake, a magnitude 6.5 earthquake on the same day near Big Bear City, and the October 17, 1987 magnitude 7.1 "Loma Prieta" earthquake in northern California did not reveal any damage to State Water Project facilities. The January 17, 1994 magnitude 6.7 earthquake centered in Northridge created slight damage to State Water Project facilities. On March 28, 2014, a magnitude 5.1 earthquake centered in the City of La Habra, which is adjacent to the District, struck on a fault underneath the Puente Hills thrust fault. The District did not experience any damage or disruption of service from this earthquake. Occurrence of other earthquakes could cause an interruption of deliveries of water to and from the District until repairs could be affected, thus possibly diminishing the value of the Enterprise and the amount of Revenues. See "THE DISTRICT AND THE ENTERPRISE – Emergency Supplies" herein for a discussion of water supply sources available to the District in an emergency.

The State of California has experienced severe droughts in the current and recent years, which caused a significant reduction in, and, in some cases, elimination of, the amount of water available from the State Water Project. Operational mandates for environmental protection of the Sacramento-San Joaquin River Delta (the source of water for the State Water Project) as imposed by federal and state regulatory agencies also impinge on the amount of water available for delivery to contractors. In the State Water Project Draft Delivery Reliability Report 2013, the State Department of Water Resources forecasts that, based on historical precipitation patterns, current level of demand, and operating under these environmental mandates, on average 60% of contractor requests will be met through 2033. The State Water Project is a significant source of water delivered by the District, and for 2014 the preliminary estimate for deliveries from the State Water Project was initially 0%, but on April 18, 2014 was increased to 5%. See "THE DISTRICT AND THE ENTERPRISE – Water Sources and Supply; Water Purchases" herein.

Interruption of delivery of water for any reason will not alter the legal obligation of the District to pay Debt Service Payments. However, a reduction in the availability of water could materially adversely affect the Revenues. See "THE DISTRICT – Storage" herein.

Environmental Considerations

Bay-Delta. Most of California's developed water supply flows into or is exported through the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (Delta). Human activity and changing environmental conditions coupled with a complex framework of federal and state laws administered by numerous agencies have made management of the Delta challenging.

Recent State Water Legislation. In November 2009, the State enacted legislation that created the Delta Stewardship Council (the "DSC"), to assume Bay-Delta management responsibilities in lieu of the California Bay-Delta Authority. Under the legislation, the DSC must work to achieve the "coequal" goals of providing a more reliable water supply for California and protecting, restoring, and enhancing the Delta ecosystem. The legislation also mandates that the coequal goals be achieved in a manner that protects and enhances the unique cultural, recreational, natural resource, and agricultural values of the Delta. The legislation provided that the DSC must adopt a comprehensive Bay-Delta management plan by January 1, 2012. The Delta Plan was unanimously adopted by the Delta Stewardship Council on May 16, 2013. Subsequently its 14 regulatory policies were approved by the Office of Administrative Law, a state agency that ensures the regulations are clear, necessary, legally valid, and available to the public. The Delta Plan became effective with legally-enforceable regulations on September 1, 2013. Numerous parties filed seven separate actions in state court challenging the legality of the Delta Plan, which actions are pending.

The legislation reshaped the existing Delta Protection Commission (the "DPC") into a 15-member body primarily comprising local representatives from Bay-Delta communities. The DPC is required to adopt a Bay-Delta economic sustainability plan, and may review and comment on any proposed project within the scope of the Bay-Delta management plan adopted by the DSC.

The legislation also created a new Sacramento-San Joaquin Delta Conservancy (the "Conservancy") to engage in ecosystem restoration projects within the Bay-Delta and Suisun Marsh. The Conservancy is authorized to acquire conservation easements and to support efforts that advance the economic well-being of Bay-Delta residents.

Finally, the legislation mandated that the State Water Resources Control Board ("SWRCB") conduct informational hearings and issue a report regarding criteria for Bay-Delta outflows that would, in the SWRCB's opinion, protect and preserve public trust resources. In a report that was unanimously adopted on August 3, 2010, SWRCB concluded that substantially increased flows from rivers flowing into the Bay-Delta would be needed in the Delta ecosystem if fishery protection was the sole purpose for which its waters were put to beneficial use.

Bay Delta Conservation Plan. The Bay Delta Conservation Plan (the "BDCP") is a long-term conservation strategy designed to improve the status of species and natural communities covered by the plan, and provide the basis for long-term permits under the federal Endangered Species Act and California Natural Community Conservation Planning Act for operation of the State Water Project and the federal Central Valley Project ("CVP") (collectively, the "Water Projects"). The goal of the plan is to improve the reliability of Delta water supply, while also restoring aquatic habitat and fish populations.

The State released a public draft of the BDCP in November 2013, and an accompanying Draft Environmental Impact Report/Environmental Impact Statement (the "BDCP EIR/EIS"). The BDCP EIR/EIS was prepared to fulfill the requirements of the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). The draft BDCP EIR/EIS considers numerous alternatives and one no action alternative. The no action alternative describes future circumstances without implementation of the proposed BDCP actions, and represents continuation of the existing plans, policies, operations, and conditions that represent continuation of trends in nature. The other alternatives include various combinations of water conveyance configurations, capacities, operations, and habitat restoration, and their effects on biological resources, hydrology, and the human environment.

Under CEQA, the "Preferred Alternative" designated by DWR includes two 40-foot inside diameter tunnels to carry water 35 miles to the existing pumping plants in the south Delta. From there, water would be moved into existing aqueducts that supply much of the State. However, this alternative is subject to change as DWR receives and considers public and agency input on the environmental analysis. The District is unable to predict what the final Preferred Alternative will be, or the financial or operational impact of such Preferred Alternative.

Stakeholders with diverse interests have expressed varying degrees of dissatisfaction with the BDCP, which is being developed at the same time that certain restrictions on the Water Projects are being challenged in pending lawsuits (as discussed below). The comment period closed on July 29, 2014.

ESA Litigation. The listing of a number of fish species as threatened or endangered under the federal and/or California Endangered Species Acts (respectively, the "Federal ESA" and the "California ESA" and, collectively, the "ESAs") have affected operations of the Water Projects by reducing the amount of water pumped by the Water Projects and by limiting the flexibility of both Water Projects. An annual environmental water account established under the CALFED Bay-Delta Program as a means of meeting environmental flow requirements and export limitations, which has been terminated, was intended to mitigate these impacts in the past. Currently, six species, the Sacramento River winter-run and Central Valley spring-run Chinook salmon, delta smelt, a distinct population segment of the North American green sturgeon, Central Valley steelhead, and Southern Resident killer whales ("Southern Resident") are listed under the Federal ESA and are the subject of two biological opinions involving the operation of the Water Projects.

The Federal ESA requires that before any federal agency authorizes, funds, or carries out an action, it must consult with the appropriate federal wildlife agency to determine whether the action is likely to jeopardize the continued existence of any threatened or endangered species, or adversely modify the species' critical habitat. The result of the consultation is known as a "biological opinion." In the biological opinion, the federal wildlife agency determines whether the action is likely to cause jeopardy to the species or destruction or adverse modification of its critical habitat, and recommend a reasonable and prudent alternative ("RPA") (in the event an affirmative finding of jeopardy or adverse modification is made) or reasonable and prudent measures (in the event a finding is made that the action is not likely to result in jeopardy or adverse modification) that would allow the action to proceed without causing jeopardy or adverse modification. Typically, an incidental take statement (or "ITS") accompanies the biological opinion. The ITS allows the action to proceed even though it may result in some level of "take," including harming or killing some members of the listed species, incidental to the agency action, provided that the agency action complies with terms and conditions set out by the federal wildlife agency.

On December 15, 2008, the United States Fish and Wildlife Service (the "Service") issued a biological opinion and ITS that govern operations of the Water Projects with respect to the delta smelt and its critical habitat. The Service concluded that the continued long-term operation of the Water Projects and cumulative effects are likely to jeopardize the continued existence of the delta smelt. The Department of Water Resources sought and obtained a consistency determination under the California ESA based, in part, on the 2008 Biological Opinion. In the spring of 2009, several water agencies and other entities filed five separate complaints challenging the 2008 biological opinion. These cases have been consolidated (*San Luis and Delta Mendota Water Authority v. Salazar*). In December 2010, the Court issued a memorandum decision holding that the 2008 biological opinion is unlawful and remanding it to the Service for further consideration. On May 19, 2011, the court entered a final judgment in the litigation.

The environmental defendants and federal agency defendants appealed the district court's decision to the U.S. Court of Appeals for the Ninth Circuit. The State Water Contractors, the Metropolitan Water District of Southern California, and the San Luis & Delta Mendota Water Authority and Westlands Water District filed cross-appeals. On March 13, 2014, a divided three-judge panel of the Ninth Circuit issued a decision reversing the lower court decision in part and affirming it in part. The Department of Water Resources, State Water Contractors, Kern County Water Agency, the Coalition for a Sustainable Delta, the Metropolitan Water District of Southern California, and the San Luis & Delta Mendota Water Authority and Westlands Water District filed petitions for rehearing en banc seeking further review of the case, which the Ninth Circuit denied. The State Water Contractors, Kern County Water Agency, the Coalition for a Sustainable Delta, the Metropolitan Water District of Southern California, and the San Luis & Delta Mendota Water Authority and Westlands Water District filed a motion to stay indicating their intent to seek Supreme Court review. Because the panel decision is not final, the lower court decision remanding the 2008 biological opinion remains in place. These water supply restrictions could have a range of impacts on the Agency's deliveries from the State Water Project depending on hydrologic conditions. Any impacts in 2014 will be limited by the current allocation estimate of 5% for State Water Project supplies.

On June 4, 2009, the National Marine Fisheries Service ("NMFS") issued a biological opinion and ITS on the proposed operations of the Water Projects with respect to the Sacramento River winter-run Chinook salmon, Central Valley spring-run Chinook salmon, Central Valley steelhead, Central California Coast steelhead, Southern Distinct Population Segment of North American green sturgeon ("Green Sturgeon"), and the Southern Resident. NMFS concluded that the long-term operations of the Water Projects and cumulative effects are likely to jeopardize the continued existence of the winter-run and spring-run Chinook salmon, the Central Valley steelhead, the Green Sturgeon, and the Southern Resident. NMFS further concluded that the long-term operations would destroy or adversely modify the designated critical habitat of the winter-run and spring-run Chinook salmon, the Central Valley steelhead, and the proposed critical habitat of the Green Sturgeon. NMFS concluded that the proposed operations are not likely to jeopardize the continued existence of the Central California Coast steelhead. In the summer of 2009, public water agencies and farmers filed complaints challenging the legality of the 2009 biological opinion. These cases were consolidated (*San Luis and Delta Mendota Water Authority v. Locke*). On September 20, 2011, the United States District Court for the Eastern District of California issued its memorandum decision and held for plaintiffs in whole or in part with respect to about half of the claims, while holding for defendants with respect to the balance of the claims. Plaintiffs prevailed on their claim that Reclamation's provisional adoption and NMFS's and Reclamation's implementation of the 2009 biological opinion and its RPA violated NEPA. On December 12, 2011, the Court entered a final judgment in the litigation. Under the judgment, NMFS is required to complete a new biological opinion consistent with the requirements of law by February 1, 2016.

The environmental defendants and federal agency defendants appealed the district court's decision to the U.S. Court of Appeals for the Ninth Circuit. Kern County Water Agency, the Coalition for a Sustainable Delta, the State Water Contractors, the Metropolitan Water District of Southern California, and the San Luis & Delta Mendota Water Authority and

Westlands Water District filed cross-appeals. Argument is scheduled to occur in September 2014.

In addition to the litigation described above under the Federal ESA, the State Water Contractors sued the Department of Fish and Game in the Superior Court of the State of California for Alameda County alleging that the Department violated State law when it issued a consistency determination under the California ESA that provides take coverage for operation of the State Water Project based on the Service biological opinion and RPA. The lawsuit has been dormant pending the outcome of the federal lawsuit regarding the Service biological opinion.

The outcome of the existing or any threatened litigation regarding the listed species of fish could influence how the Water Projects are operated. The Department of Water Resources has altered the operations of the State Water Project to accommodate the listed species. This change in operations has influenced the manner in which water is diverted from the Bay-Delta and State Water Project deliveries. Additional changes in the operation of the Water Projects could result from the consultation process for new biological opinions for listed species under the Federal ESA or from the California Department of Fish and Game's actions regarding a consistency determination under the California ESA.

Impact on Supply and Cost. The staff of the Metropolitan Water District of Southern California ("MWD"), the District's primary source of water, has analyzed the ramifications for MWD's State Water Project supplies and its options for mitigating any reduction of State Water Project supplies that may result from an adverse result to the litigation. In the event of a shutdown of the State Water Project pumping plant that stopped deliveries of State Water Project water for an extended period of time, MWD would be required to undertake extraordinary measures to minimize the possibility of extreme water shortages within its service area. These include calling for extraordinary conservation through an extensive public outreach campaign, curtailing all deliveries for groundwater replenishment, cutting agricultural deliveries by 30%, calling on additional withdrawals from groundwater conjunctive use and storage programs and calling for additional voluntary fallowing in MWD's agricultural land management program. MWD's emergency storage requirement is established periodically to provide a six-month water supply at 75% of member agencies retail demand under normal hydrologic conditions. In addition to impacts on supplies, any such mitigation actions will most likely have an impact on rates charged by MWD.

Conclusions. Decisions in these cases or future litigation, listings of additional species or new regulatory requirements could adversely affect State Water Project operations in the future by requiring additional export reductions, releases of additional water from storage or other operational changes impacting water supply operations. The District cannot predict the ultimate outcome of any of the litigation or regulatory processes described above at this time or whether such outcome will result in any materially adverse impact on the operation of the State Water Project pumps, MWD's State Water Project supplies or reserves, or MWD's deliveries to the District. See "THE DISTRICT AND THE ENTERPRISE – Water Sources and Supply; Water Purchases" and "– Storage" herein.

Impact of State Budget

The State has experienced serious budgetary shortfalls in recent years, although the state is currently projected to end the current fiscal year with a significant surplus. The District cannot predict what actions will be taken in the future by the State Legislature and the

Governor to deal with changing State revenues and expenditures. It is therefore anticipated that there could be additional legislation in the future which addresses a shortfall. The District cannot predict what measures may be proposed or implemented for the current Fiscal Year or in the future. Given the magnitude of the State's historical budgetary deficits, it is possible that future legislation will impact revenues of local agencies. These developments at the State level will most likely adversely affect local governments.

Proposition 1A, passed by the voters in 2004 ("Proposition 1A"), amended the California Constitution to, among other things, prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (and only then if (x) such amounts were agreed to be repaid with interest within three years, (y) the State had repaid any other borrowed amounts, and (z) such borrowing could not occur more often than twice in ten years). In 2009 the State Legislature exercised its authority and suspended the protection of Proposition 1A for Fiscal Year 2009/10, and authorized approximately $1.9 billion to be borrowed from local governments through the suspension of Proposition 1A, all of which was subsequently repaid.

The District currently does not anticipate that the State budget issues will materially adversely impact the operation of its water operations or its ability to pay Debt Service Payments or any of its other obligations as when due.

Proposition 26

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes ("special taxes") require a two-thirds vote.

Proposition 26 is likely to further undergo both judicial and legislative scrutiny before any long term impact on the District and its obligations can be determined. Certain provisions of Proposition 26 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until prepaid under one of the other redemption provisions contained in the Indenture.

In addition, legislation affecting the tax exemption of interest on the Bonds may be considered by the United States Congress and the State legislature. Federal and state court proceedings and the outcome of such proceedings could also affect the tax exemption of interest on the Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of delivery of the Bonds will not have an adverse effect on the tax exemption of interest on the Bonds or the market value of the Bonds.

IRS Audit of Tax-Exempt Issues

The IRS has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar obligations).

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE DISTRICT AND THE ENTERPRISE

The following material is descriptive of the District and the enterprise. It has been prepared by or excerpted from sources as noted herein and has not been verified by Bond Counsel or the Underwriter.

General; Service Area

The Rowland Water District (the “District”) was formed in 1953 for the purpose of operating a water system (the “Enterprise”) for residents and businesses located within the boundaries of the District. The District’s service area encompasses approximately 17.2 square miles and includes certain unincorporated areas of southeastern Los Angeles County, including portions of Rowland Heights, La Puente, Hacienda Heights, the City of Industry and the City of West Covina. The District contains residential, commercial and industrial development. The District’s service area has a population of approximately 60,000 persons, and as of June 30, 2014 provided approximately 13,800 water service connections. The District is governed by a five member Board of Directors, elected for 4-year terms. As described below, the District’s potable water supply is received from the State Water Project (“SWP”) and is purchased from the Metropolitan Water District of Southern California (“MWD”). In February of 2014 the District completed construction of and commissioned the La Habra Heights interconnection. This connection is capable of supplying up to 2,000 acre feet per year from the Central Ground Water Basin.

The primary facilities comprising the Enterprise, as of June 30, 2014, included 17 potable water storage reservoirs with a total capacity of approximately 48 million gallons, 12 potable water booster stations to move water to different elevations, approximately 170 miles of water transmission and distribution mains, 1 ground water well supplementing the recycled system, 1 recycled booster station and a 5 million gallon recycled water storage reservoir, and related control and telemetering systems. Pursuant to the Indenture, the ownership of certain components of the Enterprise may be transferred by the District to the Agency to facilitate operations and provide operational savings. For example, the District has transferred the facilities relating to its agreement with the La Habra Heights County Water District (see "Recent and Future Enterprise Improvements" below). Prior to any such transfer, the District will be required to certify that such transfer will not materially adversely affect the operation of the Enterprise or the collection of Net Revenues.

The District is the sole provider of water service for residential, commercial and industrial enterprises within its service area. Approximately 46% of District water demand, currently approximately 4,933 acre-feet a year, is from residential users, and all of the District's approximately 13,800 customers are billed based on individually metered water usage. Based on projected build-out, the anticipated total water system demand is estimated to be 18,000 acre-feet a year by the year 2020.

The District's Enterprise is under the direction of Ken Deck, the General Manager of the District, and is operated by a staff of 26 full-time employees. The following table summarizes the operation of the Enterprise for the past six Fiscal Years.

TABLE 1
ROWLAND WATER DISTRICT
SUMMARY OF OPERATIONS
(As of June 30)

	2009	2010	2011	2012	2013	2014[3]
Treated Water Purchased[1]	12,409	11,273	10,901	11,002	11,423	11,500
Potable Water Sold[1]	11,845	11,170	10,489	10,788	11,097	11,278
Change from previous year	(4.37%)	(5.70%)	(4.44%)	2.85%	2.86%	1.63%
Number of Service Connections[2]						
Residential	11,541	11,567	11,540	11,557	11,536	11,540
Commercial/Industrial	1,150	1,161	1,179	1268	1,189	1,195
Multifamily	398	411	412	400	411	411
Fire Service	449	451	455	492	466	470
Agricultural/Irrigation/Other	42	43	43	43	240	250
TOTAL	13,580	13,633	13,629	13,760	13,842	13,866
Change from previous year	0.24%	2.20%	0.41%	0.96%	0.60%	0.17%
Population (Estimated)	61,500	58,000	58,000	60,000	60,000	60,000
Cost of Imported Water $/a-f	$600	$692	$754	$793	$849	$875

Source: Rowland Water District.
(1) In acre-feet.
(2) Excludes temporary meters.
(3) Estimated.

Service connections in the Enterprise range in diameter from 3/4-inch to 12-inches. All water production and consumption is metered. A summary of service connections to the Enterprise for the most recent six fiscal years is contained in Table 1 above. The District currently projects that service connections will increase 1.0% a year for the current and next four fiscal years.

Land Use Projections

The County is primarily responsible for land use policy for most of the area served by the District, with the remaining areas under the jurisdiction of the Cities of Industry and West Covina. Significant amounts of undeveloped land exist within the District. A condition of new development is that the developer provide infrastructure sufficient to provide water service for each lot in the proposed development. There are currently no plans for construction of any material number of new homes in the current year. There are plans for an additional 3,600 homes within the District in various stages of planning (the "Aera Master Planned Community"). In August 2007 the District completed a Water Supply Assessment (the "Water Supply Assessment") for the Aera Master Planned Community. While the Water Supply Assessment determined that the District would need to add two new connections to its primary source of water (see "Water Sources and Supply; Water Purchases" below) it did not anticipate that to be a problem. In addition, the developer of the Aera Master Planned Community will be required to provide all financing for additional facilities needed to serve the development. The Water Supply Assessment concludes that the District will be able to provide water to the development if and when it is completed. The current use projections are approximately 3,634 acre-feet a year of potable water, which could be reduced to 1,635 acre-feet a year with the planned use of recycled water. It is the District's understanding that due to the current economic environment development of this project is not actively progressing.

The Walnut Creek Energy Park ("WCEP") has recently commenced operation. The WCEP is a 500-megawatt (MW) electricity peaking facility consisting of five natural gas-fired turbine-generators, which will be cooled with recycled water supplied by the District. The $280 million facility is located in the City of Industry, and is projected to have an annual demand of approximately 871 to 1,075 acre-feet, which will essentially double the District's historical recycled water production. During its start up in the Fiscal Year ending June 30, 2014, the facility used approximately 244 acre-feet. The District currently plans to service this demand with local non-potable groundwater sources from the Puente Basin, supplemented with recycled water purchased from the City of Industry (as described below under "Water Sources and Supply; Water Purchases"). The District can provide no assurance that the WCEP will operate as currently anticipated.

Recent and Future Enterprise Improvements

The District has an ongoing capital improvement plan with respect to the Enterprise as a result of anticipated growth, which it anticipates funding through connection fees on such new development (see "Land Use Projections" above). Developers are required to pay all costs associated with additional infrastructure required for their development. In addition, developers may be required to pay an "acreage supply fee" of $1,750 per acre or part thereof. Finally, depending the amount of increased demand, a developer may be required to purchase additional water supplies for the Enterprise. See "Enterprise Rates and Charges' below. The District is also completing a number of projects financed with proceeds of the 2012 Bonds, including an interconnection with California Domestic Water Company and rehabilitation of certain wells.

Since until 2014 the District was 100% dependent on imported water for its potable water supplies, it has been working in partnership with Walnut Valley Water District ("Walnut Valley"), which is in a similar circumstance, to increase water supply reliability and offset future cost increases (the "Regional Water Supply Reliability Program" or "RWSRP"). The District and Walnut Valley amended the Agency's Joint Powers Agreement to provide the mechanism for the two agencies to work in partnership. The District entered into a Water Production and Delivery Agreement, dated as of May 16, 2012, with La Habra Heights County Water District (LHHCWD) and Orchard Dale Water District (ODWD) (the "LHH Agreement") for the delivery of approximately 2,000 acre feet per year of potable water from the Central Groundwater Basin (the "Central Basin") in southeast Los Angeles County. Additionally, the District entered into a Production and Delivery Agreement, dated January 11, 2012, with California Domestic Water Company (CDWC) (the "CDWC Agreement") for the delivery of approximately 5,000 acre feet of potable water from a combination of the Main San Gabriel Basin (MSGB) and the Central Basin. Water is currently being delivered under the LHH Agreement. While the facilities have been transferred to the Agency, the District operates the facilities and the water supply from this connection supplies water directly to the District's distribution system. This allows the District to reduce the need for imported supplies. The production cost of water under the LHH Agreement is less than the cost of imported supplies (currently approximately $650 an acre-foot). Environmental review and design work has been completed on facilities to implement the CDWC Agreement, and construction is underway with an expected completion date of December 2014. These projects were funded with proceeds of the 2012 Bonds.

The Los Angeles County Superior Court recently approved amendments to the Main San Gabriel Basin (MSGB) Judgment to allow for water storage within the basin and exports out of the basin. The District, in conjunction with Walnut Valley, currently has 10,000 acre feet (with each agency having 5,000 acre feet) stored in a Cyclic Storage account in the MSGB through the Three Valley Municipal Water District ("TVMWD"). The District is currently in negotiations to establish a storage and export agreement relative to MSGB groundwater in its own name. The Agency has also purchased 365 acre feet (of which the District is entitled to half) of ground water rights within the Central Basin and is pursuing the procurement and or lease of additional rights.

Phase 2 of the RWSRP (the "Alternative Water Supply Project") will include the development of production and delivery agreements and the design of infrastructure to move alternate water supplies to the District and Walnut Valley from potentially the Covina Irrigating Company and the City of La Verne, and to provide additional treatment capacity.

To successfully complete any future long term water transfers, additional financing may be required to purchase water rights and construct the infrastructure necessary to extract the water from the groundwater basins, along with treatment and conveyance systems. The District's rate study recently completed by Atkins anticipates the Alternative Water Supply Project could cost at least $20 million, a portion of which is being funded from proceeds of the 2012 Bonds, and the rate increases reflected in the study were designed to include funding this project. The District does not have any current plans to issue additional obligations to fund the Alternative Water Supply Project. See "SECURITY FOR THE BONDS - Limitations on Parity Obligations and Superior Obligations" herein for a discussion of conditions which must be satisfied prior to issuance of any parity obligation.

Water Sources and Supply; Water Purchases

The District obtains imported water from the TVMWD, which is a member agency of the Metropolitan Water District of Southern California ("MWD"). The MWD is a public corporation organized in 1928 under the authority of the Metropolitan Water District Act. TVMWD was formed in 1950 (originally named the "Pomona Valley Municipal Water District," it changed its name in 1986) for the purpose of transporting state water project ("SWP") and Colorado River water to supplement the local water supply. Water purchases are delivered via a network of reservoirs, aqueducts and pumping facilities.

The primary source of supply of imported water is MWD's Weymouth Treatment Plant in La Verne, which currently produces a blend of SWP and Colorado River water. Water from the Weymouth facility is conveyed through two pipelines. The first pipeline is MWD's Orange County Feeder, which transitions from the Weymouth facility south to Orange County, passing on the easterly side of the District. The District has two connections to the Orange County feeder. The second pipeline is the Pomona, Walnut, and Rowland Joint Water Line (PWR), which was constructed in partnership among the three entities to bring water from the Weymouth treatment facility to each agency. The pipeline is operated under the governance of the PWR Joint Water Line Commission, a joint powers authority. In addition, the TVMWD Miramar treatment facility, which treats SWP water, is connected to this pipeline, allowing the agencies to purchase surplus water from TVMWD when such surplus supplies are available. The total water purchased from TVMWD is currently 13 million gallons per day ("mgd"), which is approximately 100% of the current daily usage for the District. In Fiscal Year 2013/14, the District satisfied 97% of its annual domestic potable water demands from imported water supplies. Through all of its connections, the District has the physical capacity to purchase 35 mgd.

As discussed above, construction of the interconnection between the District and CDWC is currently under construction, with a capability of delivering 5,000 acre feet of potable water. Negotiations are currently underway with Covina Irrigating Company to supply surplus potable water to the District. It is anticipated that an agreement between the two agencies will be presented to each governing body by September or October of this year. The District is also in negotiations with the City of La Verne and the Golden State Water Company to refurbish and use ground water production wells that were previously shut down due to nitrate contamination. The District has presented to the California Department of Health a ten percent engineering design and has received a approval to continue moving forward with the project. Additionally, the District has applied for and has received approval form the IRWMP leadership committee to submit the project to the State Water Resources Control Board for Proposition 84 grant funding of $3 million.

The District has access to MWD water through its purchase arrangement with TVMWD. MWD currently imposes a two-tier rate structure. As a member, TVMWD and MWD entered into a 10-year purchase order for imported water supply, dated January 1, 2003 (the "TVMWD Purchase Order"), pursuant to which TVMWD agreed to purchase a minimum of 60% of the previous ten years' water purchases. The TVMWD Purchase Order was subsequently extended through December 31, 2014. MWD has indicated in its disclosure documents that extensions or replacements of member agency purchase orders is expected to be addressed in the second half of 2014. Under the TVMWD Purchase Order, TVMWD is entitled to purchase sufficient amounts of untreated water necessary to sustain its water system at a cost of $593 per acre-foot (plus certain pass-through amounts). While TVMWD purchases, and subsequent supply to the District, are subject to the overall availability of MWD water supplies, TVMWD has never been unable to obtain requested deliveries from MWD, and the District has never been unable to obtain requested deliveries from TVMWD. MWD imposes transmission costs, debt service allocation and other costs on the imported water supply, which are passed on by TVMWD to the District, and by the District to its customers (see "Water Rates and Charges" below).

The District overlies the Puente Ground Water Basin, which is a fairly shallow aquifer compared to surrounding aquifers. The water quality within the basin is very poor quality, with high levels of total dissolved solids, nitrates and volatile organic compounds. Additionally, since the basin is primarily composed of clay soils, the quantity of water produced from the basin is low. Because of the poor quality and low quantity it is not cost effective to treat water pumped from the basin to potable water standards, so therefore the water is used as supplement to the recycled water system described below. See “Groundwater Contamination” below.

MWD faces a number of challenges in providing a reliable and high quality water supply for its members, including the District. These include, among others: (1) the need to reduce deliveries from the Sacramento Delta to protect sensitive species and habitat; (2) the increased competition for low-cost water supplies; (3) variable weather conditions; and (4) increased environmental regulations for clean and safe drinking water. In response to these challenges, MWD, the District and the other member agencies have implemented a number of actions. Those actions are detailed in certain disclosure documents prepared by MWD as described below. Working closely with its member agencies, in 1996 MWD initiated a long-term water planning process that ultimately led to the preparation of its Integrated Water Resources Plan (IRP).

The IRP is a water management framework with an increased emphasis on regional collaboration. The IRP which was recently updated in 2010 is designed to (1) ensure a reliable and high quality water supply over the next 25 years; (2) coordinate the planning activities among Southern California’s water providers; (3) avoid redundant investments; and (4) provide a flexible and balanced planning framework. The 1996 IRP set a regional reliability goal of meeting “full-service demands at the retail level under all foreseeable hydrologic conditions.” True to this reliability goal, the 2010 IRP update seeks to stabilize MWD’s traditional imported water supplies and establish water reserves to withstand California’s inevitable dry cycles and growth in water demand. The 2010 IRP takes additional steps by promoting water use efficiency to further ensure reliability. The IRP spells out a strategy to buffer the region from future changing circumstances through accelerated conservation and local supply development. Furthermore, it advances long-term planning for potential future contingency resources, such as storm water capture and large-scale seawater desalination, in close coordination with MWD’s 26 member agencies and other utilities.

MWD has many other ongoing projects and programs aimed at increasing water supply reliability and reducing vulnerability to droughts. Such programs include funding for local recycled and groundwater recovery projects, water transfer projects, conservation projects, and off-river, groundwater, and regional storage projects. MWD faces various serious challenges in the continued supply of imported water to its members, including the District. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD has entered into certain continuing disclosure agreements pursuant to which it is contractually obligated, for the benefit of owners of certain of its outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 of the Exchange Act (“Rule 15c2-12”) and annual audited financial statements with certain information repositories. MWD has not entered into any contractual commitment with the District, the Trustee or the Owners of the Bonds to provide information. MWD has not reviewed this Official Statement and has not made any representations or warranties with respect to the accuracy or completeness of the information contained or incorporated herein, including information with regard to MWD.

MWD's Internet home page is located at www.mwdh2o.com, and MWD's most recent audited financial statements are included at this Internet address. *This Internet address is included for reference only and the information on such Internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on any Internet site.*

As detailed in the Urban Water Management Plan 2010 Update for MWD, MWD has determined that it expects to reliably meet projected water demands within its respective service areas through the year 2035, even under a repeat of the worst single-year and multiple-year drought events. However, these estimates may be affected by the final determination of certain environmental challenges. See "RISK FACTORS – Environmental Considerations" herein for a discussion of certain recent environmental issues which have affected, or could affect in the future, the ability of MWD to obtain water from the SWP.

The District has also entered into an agreement with the City of Industry (the "City") to purchase up to 1,600 acre feet per year of recycled water, although its ultimate goal is to utilize approximately 3,500 acre-feet a year. Pursuant to an ordinance of the District, parks, cemeteries, commercial/retail landscaping and public turf/field areas are required to be irrigated with recycled water if it is available, and users are provided approximately a 77% discount over comparable potable prices for such use. The City has a contract with Los Angeles County Sanitation District No. 2 to purchase up to 10,000 acre feet per year of wastewater for treatment in its facility. The City's recycled water system consists of the San Jose Creek Waste Water Treatment Facility, with a pump station located at the San Jose Creek Waste Water Treatment Facility, to pump water east through approximately seven miles of 36" pipeline to a centrally located storage and pumping facility. This facility consists of two steel reservoirs with a total capacity of 4 million gallons, one pumping facility to supply water to the Industry Hills Golf Course and a newly constructed pumping facility that houses pumps for the District, Suburban Water System and the City. In 2010 the District completed construction of the recycled pipeline in Arenth Avenue and Fullerton Road, looping the recycled water system, which now provides the District the ability to use the newly constructed pump station. These facilities were constructed in part with proceeds of the Prior Obligations.

In connection with its recycled water program, the District has entered into an agreement, dated September 23, 2005, with MWD and TVMWD (the "LRP Agreement") by which it is participating in MWD's local resources program (the "LRP"). The LRP was established to provide financial assistance for water recycling and groundwater recovery projects that reduce demand on MWD's imported water supply. Pursuant to the LRP Agreement, the District will receive a subsidy payment from MWD for up to 1,884 acre-feet of recycled water per year. The LRP Agreement, which terminates in 2030, provides for current subsidy payments of $100 per acre-foot, declining to $50 an acre-foot in 2016 through the remaining term of the LRP Agreement.

MWD's planning and development of a variety of storage programs has lessened the impacts of the drought in Southern California, and has enabled MWD to make deliveries as requested by TVMWD. In addition, a set forth in the following table, the District has made significant progress in developing local ground water sources and expanding its recycled water system to offset its import supplies.

In July 2011 the District prepared an update to its urban water management plan (the "UWMP"), as required by the California Water Code. The UWMP projected that the District is capable of meeting the water demands of its customers in normal, single dry, and multiple dry years between 2015 and 2035. The District is required to update the UWMP every 5 years.

Historical water production by the District is summarized in the following table.

TABLE 2
ROWLAND WATER DISTRICT
SUMMARY OF WATER PRODUCTION BY SOURCE[(1)]
(As of June 30)

Year	Wells[(2)]	Imported Recycled[(2)]	Imported (MWD)	Imported (TVMWD)	Groundwater Sources[(5)]	Total Production
2002	--	--	13,106	1,847	--	14,953
2003	--	--	12,444	1,424	--	13,868
2004	--	--	12,014	2,316	--	14,330
2005	--	--	10,336	2,617	--	12,953
2006	--	--	9,653	3,492	--	13,145
2007	--	--	10,735	3,109	--	13,844
2008	--	32	10,521	2,783	--	13,336
2009	161	115	9,541	2,868[(4)]	--	12,685
2010	196	106	7,753	3,529	--	11,584
2011	336	71	8,219	2,682	--	11,308
2012	513	238	9,469	1,775	--	11,995
2013	134	869	10,118	1,374	--	12,495
2014[(3)]	140	900	10,000	500	--	11,540

Source: Rowland Water District.
(1) In acre-feet.
(2) Non-potable.
(3) Estimated.
(4) Includes approximately 2,245 acre feet placed into storage.
(5) District currently projects receiving approximately 1,000 acre-feet in Fiscal Year 2014/15.

Storage

Storage has been provided for the existing water transmission and distribution system to reduce peak flows in the pipeline, provide uniform pressure regulation and provide a continuous source of water supply for limited periods of time when main sources of supplies are interrupted. The District has 17 reservoirs with a storage capacity of approximately 148 acre-feet. This capacity provides the Enterprise with approximately 2 days (based on average daily use) of emergency supplies. The District has an emergency connection with Suburban Water System, an adjacent private water company, and 3 potable water emergency connections and 1 recycled water emergency connection with Walnut Valley Water District.

Groundwater Contamination

The District overlies the Puente Basin, which was adjudicated in 1981 and which has been designated as a super fund site by the Environmental Protection Agency (EPA) due to contamination from a variety of industrial processes. While the District has a single well that produces a limited amount of groundwater, it is of poor quantity and quality. Due to the expense of treatment it is instead used to supplement the recycled water system, and the District currently does not have any plans to incorporate Puente Basin groundwater into its potable water system.

Water Demand and Deliveries

The District records the volume of water delivered by the Enterprise. Over the past ten years, the District has delivered, on average, 11,880 acre feet of potable water, with the declining trend in recent years primarily attributable to conservation efforts and the development of the District's recycled water system. The following table summarizes treated water deliveries for the most recent fourteen Fiscal Years.

TABLE 3
ROWLAND WATER DISTRICT
HISTORIC POTABLE WATER DELIVERIES(1)
(Fiscal Year)

Year	Total Delivered	Percent of Ten Year Average	Change Over Previous Year
2001	13,079	110.1%	--
2002	13,348	112.3	2.1%
2003	12,470	105.0	(6.6)
2004	12,839	108.1	2.9
2005	13,529	113.9	5.4
2006	12,414	104.5	(8.2)
2007	13,266	111.7	6.8
2008	13,028	109.7	(1.8)
2009	11,845	99.7	(9.1)
2010	11,170	94.0	(5.7)
2011	10,489	88.3	(6.1)
2012	10,788	90.8	2.8
2013	11,097	93.4	2.9
2014(2)	11,278	94.9	1.6

Source: Rowland Water District.
(1) In acre feet.
(2) Estimated.

The following table summarizes non-potable water deliveries for the most recent six Fiscal Years (reflecting efforts by District to reduce subsidy of non-potable uses by potable sources).

TABLE 4
ROWLAND WATER DISTRICT
HISTORIC NON-POTABLE WATER DELIVERIES[1]
(As of June 30)

Year	Total Delivered
2009	276
2010	302
2011	407
2012	751
2013	1,003
2014[2]	1,040

Source: Rowland Water District.
(1) In acre-feet.
(2) Estimated.

The District estimates that potable water delivered by the Enterprise for the current and next five Fiscal Years will increase by approximately 1% a year. Actual potable water deliveries may vary materially from such estimated amounts. Upon ultimate build out of the recycled water system, the District estimates delivery of approximately 3,500 acre feet to a variety of landscape and industrial users.

Conservation Requirements and Contingency Plans

State Senate Bill No. 7, titled the "Sustainable Water Use and Demand Reduction" ("SBx 7"), was signed into law on November 10, 2009. SBx 7 requires, among other things, that the State achieve a 20% reduction in urban per capita water use by December 31, 2020, by reducing per capita water use by at least 10% over baseline use, on or before December 31, 2015. SBx 7 also requires each urban retail water supplier (including the District) to develop urban water use targets and an interim water use target in accordance with specified requirements. The District established a per capita water use target 146.53 gallons per capita per day (GPCD) to comply with the legislation (based on the District's baseline use of 153.96 GPCD). The District expects to realize its use targets by or before 2020, and has implemented a three-tiered rate schedule to encourage conservation (see "Enterprise Rate and Charges" below).

The District actively participates in various MWD residential and commercial rebate programs, as well as school and public education and outreach programs and other programs. These programs include plumbing code enforcement, plumbing retrofit rebates, turf and landscape replacement incentive programs, educational programs and water audits.

Water Quality Compliance

Imported water from MWD is provided to the District already treated. The kind and degree of water treatment which is also effected through the Enterprise is regulated, to a large extent, by the federal government. Clean water standards set forth in the Safe Drinking Water Act and the Environmental Protection Act continue to set standards for the operations of the Enterprise and to mandate its use of technology. In the event that the California Department of Health Services or the Federal government, either acting through the Environmental Protection Agency or by adoption of additional legislation, should impose stricter quality standards upon the Enterprise, its expenses would increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which State and federal regulation will take with respect to water treatment.

Enterprise Rates and Charges

General. In accordance with California law, the District may, from time to time, fix, alter or change fixed monthly system access fees, commodity charges and other fees related to the Enterprise. Consequently, the District periodically reviews water rates. In accordance with California law, the District reviews such charges and fees to determine if they are sufficient to cover operation and maintenance costs, capital improvement expenditures and debt service requirements. Such charges and fees are set by the District for the services provided by the Enterprise after a public hearing is held. Neither the District nor the Enterprise is subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body in connection with the establishment of charges and fees related to the Enterprise. See "RISK FACTORS – Proposition 218" herein for a discussion of the treatment of the District's rates and charges in light of Proposition 218.

The District staff periodically determines the accuracy of the Enterprise rate structure after full consideration of expected operations, maintenance and capital costs. The following table discloses the current schedule of water rates and charges of the District in effect on January 1, 2014. The water rate schedule consists of two components: a service charge based on meter size and a quantity charge for the amount of water used. The current service charges recover most of the District's fixed costs. The current quantity charges recover most of the variable costs.

The District's previous rate increase went into effect in January of 2014. The District subsequently engaged the engineering services of WS Atkins plc, San Diego, California ("Atkins") to review costs and revenues of the District. Based on the Atkins's recommendations, the District initiated a rate increase in October of 2012, which includes increases for years 2013 through 2017. The rate increases reflect a pass-through of MWD's currently scheduled water rate increases of 3% for the next 5 years, and purchase and commodity costs to cover maintenance of the Enterprise, debt service payments, reserve requirements and other District obligations. The rate increase further provides for automatic adjustments over the next 5 years in the event the MWD costs increase or decrease from the current scheduled rates.

The District pumps water to six different pumping zones. The commodity rate for Zone 1 is the base rate before pumping charges. The pumping rate for each zone is added to the charge for each lower elevation zone. Pumping charges are applied to all user classes.

Pursuant to Board action taken on October 9, 2012, the District adopted the water rates set forth in the following tables. The District currently expects to undertake a new 5-year rate study in the latter part of 2015.

ROWLAND WATER DISTRICT
ENTERPRISE QUANTITY RATES AND CHARGES
(Adopted October 9, 2012)

Potable Water Rates for Single Family Residential

Pressure Zone	Usage(1)	2012 Rate(1)	Rate as of 1/1/13(1)	Rate as of 1/1/14(1)	Rate as of 1/1/15(1)	Rate as of 1/1/16(1)	Rate as of 1/1/17(1)
Zone I	1–16	$2.30	$2.52	$2.62	$2.71	$2.77	$2.84
	17–23	2.61	2.90	3.01	3.11	3.19	3.27
	24+	3.30	3.65	3.80	3.92	4.02	4.12
Zone II	1–16	2.43	2.71	2.82	2.91	2.98	3.06
	17–23	2.74	3.09	3.21	3.31	3.40	3.49
	24+	3.43	3.84	4.00	4.12	4.23	4.34
Zone III	1–16	2.54	2.99	3.10	3.20	3.28	3.37
	17–23	2.85	3.37	3.49	3.60	3.70	3.80
	24+	3.55	4.12	4.28	4.41	4.53	4.65
Zone IV	1–16	2.98	3.83	3.97	4.09	4.20	4.32
	17–23	3.29	4.21	4.36	4.49	4.62	4.75
	24+	3.98	4.96	5.15	5.30	5.45	5.60
Zone V	1–16	3.23	4.40	4.56	4.70	4.83	4.96
	17–23	3.55	4.78	4.95	5.10	5.25	5.39
	24+	4.24	5.53	5.74	5.91	6.08	6.24
Zone VI	1–16	3.41	4.73	4.90	5.05	5.19	5.33
	17–23	3.72	5.11	5.29	5.45	5.61	5.76
	24+	4.41	5.86	6.08	6.26	6.44	6.61

(1) Per hcf.

Potable Water Rates for Commercial and Multi-Family

Pressure Zone	2012 Rate(1)	Rate as of 1/1/13(1)	Rate as of 1/1/14(1)	Rate as of 1/1/15(1)	Rate as of 1/1/16(1)	Rate as of 1/1/17(1)
Zone I	$2.32	$2.70	$2.80	$2.90	$2.97	$3.04
Zone II	2.45	2.80	3.00	3.10	3.18	3.26
Zone III	2.56	3.08	3.28	3.39	3.48	3.57
Zone IV	3.00	3.92	4.15	4.28	4.40	4.52
Zone V	3.25	4.49	4.74	4.89	5.03	5.16
Zone VI	3.43	4.82	5.08	5.24	5.39	5.53

(1) Per hcf.

Recycled Water Rates

2012 Rate	Rate as of 1/1/13	Rate as of 1/1/14	Rate as of 1/1/15	Rate as of 1/1/16	Rate as of 1/1/17
$1.46/hcf	$1.53/hcf	$1.61/hcf	$1.66/hcf	$1.71/hcf	$1.76/hcf

The following table presents the Monthly/Bi-monthly Service Charge levied by the District.

ROWLAND WATER DISTRICT
ENTERPRISE WATER SERVICE CHARGES
(Adopted October 9, 2012)

Potable/Recycled Monthly Water Service Charge for all Customer Classes(1)

Meter Size	2012 Rate	Rate as of 1/1/13	Rate as of 1/1/14	Rate as of 1/1/15	Rate as of 1/1/16	Rate as of 1/1/17
5/8”	$ 19.31	$ 23.53	$ 24.24	$ 24.96	$ 25.12	$ 25.91
¾”	19.31	23.53	24.24	24.96	25.12	25.91
1”	32.04	39.08	40.26	41.46	41.73	43.03
1-1/2”	63.85	77.95	80.31	82.70	83.24	85.83
2”	102.03	124.60	128.37	132.19	133.05	137.19
3”	191.12	233.44	240.52	247.66	249.28	257.04
4”	318.39	388.93	400.72	412.62	415.33	428.24
6”	636.56	777.65	801.24	825.03	830.44	856.27
8”	1,018.36	1,244.12	1,281.85	1,319.92	1,328.58	1,369.89
10”	1,463.80	1,788.33	1,842.57	1,897.29	1,909.73	1,969.12
12”	2,736.48	3,343.22	3,444.62	3,546.91	3,570.18	3,681.20

(1) Excluding Construction/Temporary and Fire Service.

Fire Service – Device Charge

The table below sets forth the fire service charge, which was not changed by the recent Board action.

Meter Size	Bi-Monthly Rate
2”	$19.92
3”	28.88
4”	36.75
6”	73.50
8”	169.81
10”	305.37
12”	493.26

The table below sets forth a comparison of average monthly bill for a single family residential unit with a 5/8-inch meter in the District to those of surrounding communities, utilizing 20 hfc (approximately 14,960 gallons) of water per month.

TABLE 5
ROWLAND WATER DISTRICT
MONTHLY BILL COMPARISON(1)
(As of June 30, 2013)

Community	Monthly Residential Bill
Ontario	$69.00
District(2)	**63.00**
Fullerton	61.00
Walnut	70.00
Yorba Linda	58.82
Pomona	53.62

Source: Rowland Water District.
(1) Includes monthly meter and commodity charges.
(2) Reflects current rates. Reflects average zone pumping cost, so includes a component of pumping to highest elevations in the District.

The District anticipates reviewing its rates periodically, and raising rates as future needs of the Enterprise increase.

In addition to the service and quantity charges, the District charges new development an acreage supply charge to connect to the Enterprise. This charge is equal to the greater of $1,750 an acre (or pro-rata portion thereof) of undeveloped land, or the actual cost of the infrastructure necessary for connection to the Enterprise.

Collection Procedures

The District is on a monthly/bi-monthly billing cycle. Customers on a bi-monthly cycle have 30 days to pay the charges. If not paid within the 30 days, they receive a late bill including a $10.00 late fee giving them an additional 10 days to pay. If not paid, they receive a 48-hour door hanger, which includes an additional $20.00 charge, and notifies the customer that water service will be discontinued if the balance due is not paid within the 48-hour period. Customers on a monthly cycle have approximately 25 days to pay the balance due. If not paid within this time period, their next monthly bill indicates that they are given approximately 12 days to pay the previous balance due, including a $10.00 late fee. If the previous balance due is not paid prior to the specified due date, a 48-hour door hanger is given, including an additional $20.00 fee and if the balance due is not paid, service is discontinued. Currently, approximately 2.45% of accounts are considered delinquent by the District.

Outstanding Enterprise Indebtedness

As of the date of issuance of the Bonds, the only other indebtedness secured by Net Revenues is the 2012 Installment Purchase Contract which secures the Agency's 2012 Bonds, which are secured on a parity basis with the Bonds.

Largest Customers

The following are the ten largest water customers of the Enterprise based on estimated consumption as of June 30, 2014. The top ten potable water users accounted for approximately 17.2% of estimated total water consumption in Fiscal Year 2013/14, and approximately 16.6% of estimated total operating revenues for the same period.

TABLE 6
ROWLAND WATER DISTRICT
TEN LARGEST POTABLE WATER CUSTOMERS[1]
(As of June 30, 2014)

Customer	Water Consumption[2]	Percent of Total[3]	Gross Revenues	Percent of Total[4]
Morningstar Foods	315,500	6.42%	$865,127	6.17%
Dean Foods	182,903	3.72	501,526	3.58
Alta Dena Dairy	132,451	2.70	362,767	2.59
La Serna Apartments	44,135	0.90	122,531	0.87
Hacienda Gardens	41,878	0.85	114,833	0.82
Safe Plating	30,897	0.63	84,698	0.61
RH Mobile Estates	28,034	0.57	76,831	0.55
Ecolab Inc.	26,269	0.54	72,096	0.51
Bay Valley Foods	25,903	0.53	71,014	0.50
The Palms Apts.	19,443	0.40	53,284	0.38
Totals	847,413	17.26%	$2,324,707	16.58%

Source: Rowland Water District.
(1) Estimated, unaudited.
(2) In ccf's; based on average monthly consumption.
(3) Based on total of approximately 4,912,697 ccf's (approximately 11,278 acre-feet) delivered in Fiscal Year 2013/14.
(4) Based on total of approximately $14,002,615 of water sale revenues in Fiscal Year 2013/14.

The following table illustrates the allocation of water sales (excluding service charges) for Fiscal Year 2013/14 by connection category.

TABLE 7
ROWLAND WATER DISTRICT
ALLOCATION OF WATER SALES REVENUES
(Fiscal Year 2013/14)

Category	% of Revenue[1]
Residential	60.0%
Business	33.0
Public	1.0
Industrial	0.5
Recycled	5.0
Other	0.5

Source: Rowland Water District.
(1) Water sales only; excludes service charges. Estimated.

Reserves

Pursuant to Resolution No. 12-2001, adopted December 11, 2001, the District Board established a Reserve Policy with respect to its unrestricted reserve funds. The Reserve Policy provides that all unrestricted reserve funds of the District are to be held in either the Operations Fund or the Capital Facilities Fund. The goal of the Reserve Policy is to maintain on deposit in the Operations Fund (i) an amount equal to approximately 25% of annual operations costs as an operating reserve, and (ii) a rate stabilization fund to respond to significant extraordinary expenses or temporary reduction or disruption of revenues. As of June 30, 2014, approximately $3,610,000 was on deposit in the operating reserve, $976,591 was on deposit in the rate stabilization fund, and $500,000 was the unrestricted fund balance.

The purpose of the Capital Facilities Fund is to fund scheduled rehabilitation and replacement of capital facilities, and to improve facilities to meet future demand and regulatory requirements, and includes an Expansion Reserve, a Capital Improvement Reserve and a Minor Equipment Reserve. The Expansion Reserve component is intended to be funded from acreage supply charges on new or expanded connections. Amounts on deposit in the Expansion Reserve are restricted to fund capital improvements to expand existing facilities or fund facilities for new development, and are available for payment of debt service on the Bonds and the 2012 Installment Payments if proceeds of the Bonds or 2012 Installment Payments are used for such purposes. The capital and equipment reserve components are intended to be funded from operating and non-operating sources, as available, to fund scheduled rehabilitation, replacement and upgrade of facilities, with the goal of maintaining on deposit an amount equal to approximately 50% of annual depreciation expenses. As of June 30, 2014, approximately $1,542,933 was on deposit in the Expansion Reserve, $10,266,437 was on deposit in the capital improvement reserve, and $59,343 was on deposit in the minor equipment reserve.

The following chart illustrates the reserves of the District for Fiscal Years 2004 through 2014. While the reserves may be allocated by the District to pay debt service on the Bonds and 2012 Installment Payments (except for amounts in the Expansion Reserve, unless such payments relate to use of Bond or 2012 Installment Payments proceeds for which such reserve may be expended), they are not pledged for such purpose. Such reserves may be utilized at any time for lawful expenditures by the District, and no assurance can be made that the reserves will be available to pay debt service on the Bonds. The Reserve Policy is subject to change by future Board action.

TABLE 8
ROWLAND WATER DISTRICT
UNENCUMBERED RESERVES
(As of June 30)

Fiscal Year	Ending Fund Balance[1]	Percent Change
2004	$23,875,217	--
2005	23,280,883	(2.49%)
2006	21,974,541	(5.61)
2007	21,939,119	(0.16)
2008	22,060,723	0.55
2009	20,250,220	(8.21)
2010	19,637,908	(3.02)
2011	19,634,112	(0.02)
2012[2]	16,980,820	(13.51)
2013	17,568,206	3.46
2014	16,642,270	(5.56)

Source: Rowland Water District.
(1) Includes only amounts available to pay Installment Payments.
(2) Reduction primarily reflects use of reserves for one-time purchase of water rights and stored water.

Retirement Plan

All eligible employees of the District are enrolled in the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. The District pays 100% of the employer share. In most cases, PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. The District pays and reports 100% of the value of the employee share as special for the purpose of retirement benefit calculations. The District's portion for contribution of the employee rate is determined by the District Board of Directors. For eligible employees, the benefit is 2.5% at age 55. For the Fiscal Year ended June 30, 2014, the District's pension expenditures for full-time employees amounted to approximately $841,851, and for Fiscal Year 2014/15 such expenditures are budgeted to be $560,000. The District has an unfunded accrued liability to the plan at June 30, 2014 of approximately $3,761,269.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions (GASB 45), which addresses how state and local governments must account for and report their obligations related to post-employment healthcare and other non-pension benefits

(OPEB). GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The District began implementation of GASB 45 for its Fiscal Year ending June 30, 2009.

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

The District provides post-retirement benefits to qualifying retirees (those who have reached the age of 55 with 15 consecutive years of service) for medical coverage. Benefits, which totaled $117,641 in Fiscal Year 2011/12, $103,272 in Fiscal Year 2012/13 and approximately $118,860 in Fiscal Year 2013/14, are funded monthly on a pay-as-you-go basis. On April 11, 2011, the District made a $400,000 contribution to a trust account established to fund the District's net OPEB obligation, and in Fiscal Year 2012/13 contributed an additional $285,000 to the fund. The District currently projects making additional contributions of $565,000 in Fiscal Year 2014/15, and $420,000 in each of the next two fiscal years to the fund. There are 7 eligible participants that received benefits in Fiscal Year 2013/14. Based on an actuarial study prepared for the District in connection with the implementation of GASB 45, as of July 1, 2013 the District's accrued liability for these benefits was approximately $4,062,469. An updated actuarial study is expected to be completed in 2015.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the Fiscal Year 2015/16. While the District currently estimates that these changes in amortization and smoothing policies will increase its contribution levels by approximately 2.4% to 4.8%% over the five year period, it has not determined how this will be reflected in the District's budgets for such periods.

These adjustments have been undertaken in order to address underfunding of the PERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The District is unable to predict what the amount of PERS liabilities will be in the future, or the amount of the PERS contributions which the District may be required to make. More information about the PERS discount rate adjustment can be accessed through the PERS web site at www.calpers.ca.gov. *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

On September 12, 2012, Governor Brown signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and amended various sections of the California Government Codes. PEPRA (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual PERS pension benefit payouts, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA applies to all public employers except the University of California, charter cities and charter counties (except to the extent they contract with PERS). The provisions of PEPRA went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the District, will have a five-year window to negotiate compliance with PEPRA through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8% of pay for civil workers and 11% or 12% for public safety workers.

PERS has predicted that the impact of PEPRA on employers and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, PERS has noted that changes arising from PEPRA could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

The District is unable to predict the amount of future contributions it will have to make to PERS as a result of the implementation of PEPRA (being its future contributions for the normal costs of new employees), and as a result of negotiations with its employee associations. More information about PEPRA can be accessed through the PERS web site at www.calpers.ca.gov. The references to this internet website is for reference and convenience only; the information contained within the website may not be current, has not been reviewed by the District and is not incorporated herein by reference.

The District's Financial Report for the Fiscal Year ended June 30, 2013, and in particular the Notes thereto, includes additional information on the District's pension liabilities and available funding and postemployment liabilities and funding. See APPENDIX B hereto.

Property Tax Revenues; Assessed Valuations

The levy and collection of ad valorem property taxes provides a source of funds for the District. Property taxes received by the District represent the District's share of the $1 per $100 county-wide ad valorem property tax levy collected by the County. The taxes collected are allocated to taxing agencies within the County, including the District, on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of growth in assessed value (new construction, change of ownership and inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically-defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special districts.

There can be no assurance that the allocation formula currently established by State law will continue in the future. If the formula is changed in the future, it could have a material adverse effect on the receipt of property tax revenue of the District. The District does not anticipate, however, that potential changes in the allocation formula would have a material impact on its ability to meet its obligations. For further information concerning the continued receipt by the District of a share of the 1% county-wide ad valorem property tax, see “RISK FACTORS – Impact of State Budget” herein.

The following table provides a record of secured assessed valuation and tax collections within the District and the amount the District received as its share of the 1% property tax during the six most recent Fiscal Years.

TABLE 9
ROWLAND WATER DISTRICT
SECURED ASSESSED VALUATION AND TAX COLLECTION[1]

Fiscal Year (As of June 30)	Total Secured Assessed Valuation Within District	Property Tax Levy	District Property Tax Revenue[3]
2008	$6,265,306,280	$247,411	$230,538
2009	6,591,517,098	256,003	240,821
2010	6,539,533,668	246,544	234,745
2011	6,491,440,271	246,856	239,026
2012	6,551,028,300	252,478	244,765
2013	6,674,070,762	246,941	325,159
2014	7,343,157,221	259,669	280,662

Source: Los Angeles County Auditor’s Reports: Secured Tax Apportionment Ledger and Assessed Value Agency Report.
(1) Excludes amounts collected for general obligation bond debt service, and District’s share of interest and penalties on delinquencies.
(2) Estimated.

Historic Operating Results

The following table is a summary of audited operating results of the Enterprise for Fiscal Years 2009/10 through 2012/13 and a summary of estimated operating results of the Enterprise for Fiscal Year 2013/14. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2013. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the District requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following five-year comparative summary of revenues and expenses.

The results presented in the following summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the District, including the notes thereto. Copies of the audited financial statements for the District’s other Fiscal Years can be obtained at the office of the General Manager.

The District currently expects to undertake a new 5-year rate study in the latter part of 2015. In addition, the District expects that new water sources coming on line (see “Recent and Future Enterprise Improvements” above) will provide less expensive water then that currently purchased from MWD.

TABLE 10
ROWLAND WATER DISTRICT
HISTORIC OPERATING RESULTS
(Fiscal Year Ended June 30)

	2010	2011	2012	2013	2014[1]
Operating Revenues					
Water Sales	$10,290,586	$10,970,159	$11,443,758	$13,195,812	$13,591,686
Water Service	4,282,079	4,705,043	4,910,386	5,666,651	5,836,651
Total operating revenues	14,572,665	15,675,202	16,354,144	18,862,463	19,428,337
Operating Expenses					
Water purchases	7,464,916	8,463,400	8,953,225	10,033,145	10,233,808
Pumping and power	735,326	868,504	834,151	845,228	862,133
Transmission and distribution	871,616	949,055	1,005,971	1,518,173	1,548,536
Customer services	153,994	151,983	137,355	122,420	124,868
Depreciation	1,381,191	1,855,561	2,120,426	2,211,497	2,255,727
Other	489,157	410,439	455,365	301,870	307,907
General and admin.	3,239,603	3,307,605	3,764,181	4,245,888	4,330,806
Total operating expenses	14,335,803	16,006,547	17,270,674	19,278,221	19,663,785
Operating income (loss)	236,862	(331,345)	(916,530)	(415,758)	(235,448)
Non-operating Revenues (Expenses)					
Investment income	639,479	306,029	391,966	303,285	309,351
Property taxes	250,528	226,424	255,964	325,159	331,662
Gain (loss) from sale of assets	3,975	20,853	26,128	-	-
Interest Expense	(216,175)	(1,033,334)	(1,128,955)	(1,586,698)	(1,928,300)
Amortization of debt discount and costs	(16,785)	(16,785)	(16,785)	(204,538)	(27,295)
Miscellaneous	206,573	186,353	186,741	164,854	168,151
Total non-operating revenues (expenses)	867,595	(310,730)	(284,941)	(997,938)	(1,146,431)
Net income (loss) before capital contribution	1,104,457	(642,075)	(1,201,471)	(1,413,696)	(1,381,879)
Capital contribution	155,868	237,776	164,056	328,639	221,585
Change in net assets	1,260,325	(404,299)	(1,037,415)	(1,085,057)	(1,160,294)
Net assets (July 1) (as restated)[2]	62,478,296	63,738,621	63,759,220	62,637,982	63,798,276
Net assets (June 30)	$63,738,621	$63,334,322	$62,721,805	$61,552,925	$62,637,982
Net Revenue	$2,714,633	$2,243,022	$1,964,087	$1,961,919	$3,051,028
2008 Certificates/2012 Bonds Debt Service	$1,429,457	$1,477,750	$ 1,407,870	$1,493,090	$2,634,975
Debt Service Coverage	1.90	1.52	1.40	1.31	1.16

Source: District audited financial statements.
(1) Estimated, unaudited.
(2) 2012 restated to reflect capitalization of recently completed recycled water system improvements.

Projected Operating Results

The District's estimated projected operating results for the Enterprise for the Fiscal Years ending June 30, 2015 through June 30, 2019 are set forth below, excluding depreciation. The District currently expects to undertake a new 5-year rate study in the latter part of 2015.

TABLE 11
ROWLAND WATER DISTRICT
PROJECTED OPERATING RESULTS
(Fiscal Year ending June 30)

	2015	2016	2017	2018	2019
Revenues					
Water Sales-Consumption[1]	$13,806,020	$14,294,754	$14,800,788	$15,324,736	$15,867,231
Water Sales-Service Charge[1]	5,928,692	6,138,568	6,355,873	6,580,871	6,813,834
Interest Income[2]	254,105	263,100	272,414	282,057	292,042
Property Taxes[3]	338,295	345,061	351,962	359,002	366,182
Miscellaneous[4]	171,514	174,944	178,443	182,012	185,652
Private Fire Service	368,348	378,458	388,824	399,658	410,609
Total Revenues	20,866,975	21,594,885	22,348,304	23,128,336	23,935,550
Expenses[5]					
Purchased Water and Power	13,276,701	13,746,696	14,233,329	14,737,189	15,258,885
Other Operating Expenses	314,065	325,183	336,695	348,614	360,954
General and Administrative	4,547,346	4,708,322	4,874,997	4,612,704	4,775,994
Total Expenses	18,138,112	18,780,201	19,445,021	19,698,506	20,395,833
Net Revenue	2,728,862	2,814,683	2,903,284	3,429,829	3,539,717
Debt Service					
2012 Bonds	1,151,350	1,151,575	1,152,450	1,150,750	1,155,575
Bonds	1,123,549	1,293,094	1,290,819	1,290,744	1,290,219
Total Debt Service[6]	$2,274,899	$2,444,669	$2,443,269	$2,441,494	$2,445,794
Debt Service Coverage[7]	1.20	1.15	1.19	1.23	1.26

Source: Rowland Water District and Underwriter.
(1) Assumes annual growth of 3.54%.
(2) Includes interest on funds held by the District and the Trustee at an assumed return of 2.00%.
(3) Assumes growth of 2.00% annually.
(4) Income from lease of property and other miscellaneous income. Assumes growth of 2.00% annually.
(5) Excludes depreciation. Expenses are projected to increase by 3.54% annually, although general expenses reflect a reduction in 2018 due to termination of expected contributions to the OPEB trust fund (see “Retirement Plan” above)..
(6) Maximum annual debt service on the Bonds and 2012 Bonds is $2,512,750, which occurs in the Bond Year ending December 1, 2039.
(7) See “SECURITY FOR THE BONDS - Limitations on Parity Obligations and Superior Obligations” herein for a discussion of conditions which must be satisfied prior to issuance of any parity obligation.

TAX MATTERS

General

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the District with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Bonds. Bond Counsel is of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owners' particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Bond (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Bond constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Bond and the basis of such Bond acquired at such initial offering price by an initial purchaser of each such Bond will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase such Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Bonds. All holders of such Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Bond based on the purchaser's yield to maturity in such Bonds, except that in the case of such a Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond. A purchaser of such a Bond is required to decrease his or her adjusted basis in such Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Bond, and with respect to the state and local tax consequences of owning and disposing of such a Bond.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Form of Opinion

The form of Bond Counsel's anticipated opinion is included as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

NO LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance or delivery of the Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing. The District is not aware of any litigation pending or threatened questioning the existence or powers of the District or the ability of the District to pay principal or interest on the Bonds.

Although the District is subject to a number of lawsuits in the ordinary conduct of its affairs, there are no claims or actions, threatened or pending, which, if determined against the District, either individually or in the aggregate, would have a material adverse effect on the financial conditions of the District, Net Revenues or the Revenue Fund.

RATINGS

Standard & Poor's Ratings Service, a Standard & Poor's Financial Services LLC business ("Standard & Poor's") has assigned its municipal bond rating of "AA-" to the Bonds as of the Closing Date, with a "negative" outlook. The rating reflects only the views of such organization, and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that either rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any downward revision or withdrawal of any rating obtained. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

PROFESSIONAL FEES

In connection with the issuance of the Bonds, fees payable to Nossaman LLP as Bond Counsel and Disclosure Counsel, Urban Futures, Inc., as financial advisor, and The Bank of New York Mellon Trust Company, N.A., as Trustee, are contingent upon the issuance of the Bonds. Although it is serving as Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds, Bond Counsel represents the Underwriter in connection with other financings and matters unrelated to the Bonds.

FINANCIAL ADVISOR

The District has retained Urban Futures, Inc., Orange, California, as Financial Advisor for the sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Urban Futures, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal or other public securities.

VERIFICATION OF MATHEMATICAL ACCURACY

Upon delivery of the Bonds, Causey, Demgen & Moore Inc., Denver, Colorado, will deliver its independent certified public accountants' verification report on the mathematical accuracy of certain computations, contained in schedules provided to it which were prepared on behalf of the District by the Underwriter, relating to the sufficiency of the anticipated receipts from the securities deposited with the Escrow Agent (the "Escrow Securities") to pay, when due, the principal whether at maturity or upon prior redemption, interest and redemption premium requirements of the Prior Obligations. See "THE REFUNDING PLAN" above.

The report of Causey, Demgen & Moore Inc. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

CERTAIN LEGAL MATTERS

Upon the delivery of the Bonds, Nossaman LLP, Irvine, California, Bond Counsel, will issue its opinion approving the validity of the Bonds, the form of which opinion is set forth in APPENDIX C hereto. Certain legal matters will be passed upon for the District by Janet Morningstar, a Law Corporation, its general counsel, and by Nossaman LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

UNDERWRITING

The District has agreed to sell the Bonds to Mitsubishi UFJ Securities (USA), Inc., as underwriter (the "Underwriter"), and the Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of $21,666,544.55 (principal amount of the Bonds of $20,060,000, less an underwriter's discount of $80,240.00, and plus net original issue premium of $1,686,784.55). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any such Bonds are purchased. The Underwriter intends to offer the Bonds to the public initially at the prices and/or yield set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Bonds to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Bonds at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

The Underwriter has entered into an agreement with UnionBanc Investment Services LLC ("UBIS") pursuant to which UBIS may distribute certain municipal securities offerings underwritten by Mitsubishi UFJ Securities (USA), Inc., including the Bonds. Pursuant to this agreement, Mitsubishi UFJ Securities (USA), Inc. will share a portion of its underwriting compensation with UBIS with respect to the Bonds.

From time to time, Mitsubishi UFJ Securities (USA), Inc. and its affiliate, MUFG Union Bank, N.A. (formerly Union Bank, N.A.), provide various services to District including commercial banking and other services for which they receive customary compensation.

ADDITIONAL INFORMATION

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement have been authorized by the members of the District.

ROWLAND WATER DISTRICT

By: /s/ Ken Deck
General Manager

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APPENDIX A

SUMMARY OF THE INDENTURE

Definitions

"Accountant's Report" means a report signed by an Independent Certified Public Accountant.

"Additional Revenues" means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, all as shown by the certificate or opinion of an Independent Financial Consultant.

"Agency" means the Puente Basin Water Agency, a joint powers authority, operating and acting pursuant to the laws of the State of California, and its successors and assigns.

"Authorized Officer" means, with respect to the District, its President, Vice President, General Manager or the Finance Officer or any other person designated as an Authorized Representative of the District by a Written Certificate of the District signed by its President, Vice President or General Manager, and filed with the Trustee.

"Bond Counsel" means any other attorney or firm of attorneys appointed by and acceptable to the District, of nationally-recognized experience in the execution and delivery of obligations the interest in which is excludable from gross income for federal income tax purposes under the Code.

"Bond Year" means the period from the Closing Date through December 1, 2014, and thereafter the twelve-month period commencing on December 2 of each year through and including December 1 of the following year.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Trust Office is authorized to be closed.

"Certificate of the District" means an instrument in writing signed by an Authorized Officer.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code in the Indenture shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations relating to such section which are applicable to the Certificates or the use of the proceeds thereof.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is held uninvested in cash or invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully capitalized and is held uninvested in cash or invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged); and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

"Debt Service Payments" mean the payments of Debt Service on the Bonds due under the Indenture.

"Due Date" means each November 15 and May 15, commencing November 15, 2014.

"Enterprise" means the District's water system, including all facilities, works, properties and structures of the District for the treatment, transmission and distribution of potable and non-potable water, including all contractual rights to water supplies, transmission capacity supply, easements, rights-of-way and other works, property or structures necessary or convenient for such facilities, together with all additions, betterments, extension and improvements to such facilities or any part thereof hereafter acquired or constructed.

"Event of Default" means an event of default described in the Indenture.

"Federal Securities" mean (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of

America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

"Fiscal Year" means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

"Generally Accepted Accounting Principles" mean the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for special districts in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

"Governmental Loan" means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Enterprise, and the obligation of the District to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Debt Service Payments.

"Independent Certified Public Accountant" means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice, and practicing as such, under the laws of the State of California, appointed and paid by the District, and each of whom--

1. is in fact independent and not under the domination of the District;

2. does not have a substantial financial interest, direct or indirect, in the operations of the District; and

3. is not connected with the District as a board member, officer or employee of the District or the Authority, but may be regularly retained to audit the accounting records of and make reports thereon to the District.

"Independent Engineer" means any registered engineer or firm of engineers of national reputation generally recognized to be well qualified in engineering matters relating to systems similar to the Enterprise, appointed and paid by the District, and who or each of whom--

1. is in fact independent and not under the domination of the District;

2. does not have a substantial financial interest, direct or indirect, in the District; and

3. is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to make reports to the District.

"Independent Financial Consultant" means any financial consultant or firm of such consultants of national reputation generally recognized to be well qualified in financial matters relating to systems similar to the Enterprise, appointed and paid by the District, and who, or each of whom--

1. is in fact independent and not under the control of the District;

2. does not have a substantial financial interest, direct or indirect, in the District; and

3. is not connected with the District as a council member, officer or employee of the District, but may be regularly retained to make reports to the District.

"Interest Payment Date" means December 1, 2014, and each June 1 and December 1 thereafter.

"Maintenance and Operation Costs" of the Enterprise means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, including the cost of water, and (b) administrative costs of the District attributable to the Enterprise and the financing thereof; but excluding (x) depreciation, replacement and obsolescence charges or reserves therefor, (y) in any Fiscal Year prior to setting aside an amount equal to the Debt Service Payments for such Fiscal Year, capital expenditures other than as set forth in subsection (a) above, and (z) amortization of intangibles or other bookkeeping entries or a similar nature.

"Maximum Annual Debt Service" means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

(a) the principal amount of the Bonds and Parity Obligations coming due and payable by their terms in such Bond Year, including the principal amount of any term Bonds and term Parity Obligations which are subject to mandatory sinking fund redemption in such Bond Year; and

(b) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Bonds and Parity Obligations which would be Outstanding in such Bond Year if such Bonds and Parity Obligations are retired as scheduled.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Net Revenues" means, for any period, an amount equal to all of the Revenues received during such period minus the amount required to pay all Maintenance and Operation Costs becoming payable during such period.

"Outstanding" when used as of any particular time with reference to Bonds, means all Bonds except:

(1) Bonds canceled by the Trustee;

(2) Bonds paid or deemed to have been paid; and

(3) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered under the Indenture.

"Owner" or "Bondowner" means the registered owner of any Outstanding Bond.

"Parity Obligations" means the District's obligations under that certain Installment Purchase Contract, dated as of November 1, 2012, between the District and the Agency, and indebtedness or other obligations (including leases and installment sale agreements) issued or incurred by the District and secured by a pledge of and lien on Net Revenues equally and ratably with the Debt Service Payments.

"Permitted Investments" mean any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the District as a certification that such investment constitutes a Permitted Investment):

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

<u>Farmers Home Administration (FmHA)</u>
Certificates of beneficial ownership

<u>Federal Housing Administration Debentures (FHA)</u>

<u>General Services Administration</u>
Participation certificates

<u>Government National Mortgage Association (GNMA or "Ginnie Mae")</u>
GNMA – guaranteed mortgage-backed bonds
GNMA – guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)

<u>U.S. Maritime Administration</u>
Guaranteed Title XI financing

<u>U.S. Department of Housing and Urban Development (HUD)</u>
Project Notes
Local District Bonds
New Communities Debentures – U.S. Government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. Government guaranteed public housing notes and bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

<u>Federal Home Loan Bank Enterprise</u>
Senior debt obligations

<u>Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)</u>
Participation certificates
Senior debt obligations

<u>Federal National Mortgage Association (FNMA or “Fannie Mae”)</u>
Mortgage-backed securities and senior debt obligations

<u>Resolution Funding Corp. (REFCORP) obligations</u>

<u>Farm Credit Enterprise</u>
Consolidated system-wide bonds and notes

<u>Federal Agriculture Mortgage Association</u>

<u>Tennessee Valley District</u>

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. Certificates of deposit secured at all times by collateral described in 1 and/or 2 above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks including the Trustee and its affiliates. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral; and unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers’ acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase in one of the two highest rating categories by S&P or Moody’s.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

7. Investment agreements, including GIC's, forward purchase agreements and reserve fund put agreements.

8. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody's or S&P in one of the two highest rating categories assigned by such agencies.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime -1" or "A2" or better by Moody's or "A-1" or "A" or better by S&P.

11. Repurchase agreements for 30 days or less must follow the following criteria:

(i) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

12. Asset-backed Securities: As authorized in Government Code Section 53601(n), investment in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service.

13. Mortgage-backed Securities: As authorized in Government Code Section 53601(n), investment in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of asset-backed and mortgage-backed securities may not exceed 20% of the District's portfolio in total.

14. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "A" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

15. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

16. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

17. The Los Angeles County Pooled Treasury Portfolio.

"Principal Office" means the corporate trust office of the Trustee currently located in Los Angeles, California, or such other office designated by the Trustee from time to time.

"Prior Obligations" means the outstanding Rowland Water District Certificates of Participation (Recycled Water Project), Series 2008.

"Record Date" means the fifteenth day of the calendar month prior to an Interest Payment Date.

"Responsible Officer" means any officer of the Trustee assigned by the Trustee to administer the trusts established under the Indenture.

"Revenue Fund" means the fund of the District into which it deposits Revenues.

"Revenues" means all gross income and revenue received or receivable by the District from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including fees for connecting to the Enterprise) received by the District for Water Service and all other income and revenue howsoever derived by the District from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, are not Revenues and are not subject to the lien of the Indenture. Revenues shall include amounts on deposit in the Revenue Fund which have been previously released from the pledge and lien of the Indenture. Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill Incorporated, its successors and assigns.

"State" means the State of California.

"Water Service" means the potable and recycled water service made available or provided by the Enterprise.

Transfer and Exchange of Bonds

Subject to the Indenture, each Bond shall be transferable only upon a register of the names of each Owner (the "Bond Register"), which shall be kept for that purpose at the Principal Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall provide in the name of the transferee, a new Bond or Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond, in which case the principal amount of the new Bond shall be equal to the unredeemed principal amount of the Bond submitted for transfer).

Bonds Mutilated, Destroyed, Lost or Stolen

If any Bond shall become mutilated, the Trustee, at the expense of the Owner of said Bond, shall authenticate and deliver a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall authenticate and deliver a new Bond of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen.

Payment of Debt Service

All of the Net Revenues are pledged under the Indenture for the payment of Parity Obligations, including the Bonds, and all moneys on deposit in the Payment Fund and the Redemption Fund established under the Indenture are irrevocably pledged, charged and assigned to the punctual payment of the Bonds, and except as otherwise provided in the Indenture, the Net Revenues and such other funds shall not be used for any other purpose so long as any of the Bonds remain Outstanding. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Debt Service Payments, the Bonds and any Parity Obligations. The District's obligation to pay the Debt Service Payments and any other amounts coming due and payable shall be a special obligation of the District limited solely to the Net Revenues. Under no circumstances shall the District be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Indenture for the payment of the Debt Service Payments and the Bonds, nor shall any other funds or property of the District be liable for the payment of the Debt Service Payments, the Bonds or any other amounts coming due and payable.

The obligations of the District to make the Debt Service Payments from the Net Revenues and to perform and observe the other agreements shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District or the Trustee of any obligation to the District or otherwise with respect to the Enterprise, or out of indebtedness or liability at any time owing to the District by the Trustee. Until such time as all of the Debt Service Payments and all other amounts coming due and payable shall have been fully paid or prepaid, the District (a) will not suspend or discontinue payment of any Debt Service Payments or such other amounts with respect to the Bonds, (b) will perform and observe all other agreements contained in the Indenture, and (c) will not terminate the Indenture for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture.

Deposit of Debt Service Payments

All Debt Service Payments with respect to the Bonds shall be paid directly by the District to the Trustee on the applicable Due Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by it as and when received in the Debt Service Account of the Payment Fund, which fund the Trustee by the Indenture agrees to establish and maintain so long as any Bonds are Outstanding. On or before each Due Date, the District shall withdraw from the Revenue Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund.

Receipt and Deposit of Revenues; Revenue Fund

The District covenants and agrees that all Revenues, when and as received, will be received and held by the District in trust and will be deposited by the District in the Revenue Fund and will be accounted for through and held in trust in the Revenue Fund; provided, that the District may withdraw such amounts in the Revenue Fund as may be necessary to make refunds for amounts paid in advance for services provided by the Enterprise, which such service was not thereafter made available or provided. All Net Revenues, whether held by the District as trustee or deposited with the Trustee, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

All Revenues in the Revenue Fund shall be set aside by the Treasurer or deposited by the Treasurer with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

(1) Maintenance and Operation Costs. In order to carry out and effectuate the pledge and lien contained in the Indenture, the District agrees and covenants to pay all Maintenance and Operation Costs of the Enterprise (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs of the Enterprise, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable.

(2) Debt Service Accounts. The Debt Service Payments, and of all other Parity Obligations, shall be paid in accordance with the terms of the Indenture and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. Payments required with respect to Parity Obligations to replenish reserve accounts established therefor shall be made in accordance with the of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures. All Net Revenues remaining after paying all of the sums required to be paid hereunder by the provisions of (1), (2) and (3) above or in connection with any Parity Obligation may be withdrawn by the District for expenditure for any lawful purpose of the District.

The parties acknowledge that although all Parity Obligations are secured equally and ratably by applicable Net Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The District shall make such transfers from the Revenue Fund necessary to effectuate such obligations' parity claim on such Net Revenues contemplated hereby.

Liability of District Limited

Notwithstanding anything contained in the Indenture, the District shall not be required to advance any moneys derived from any source of income other than Net Revenues legally available therefor in the Revenue Fund and the other funds provided in the Indenture for the payment of the Debt Service Payments or for the performance of any agreements or covenants contained in the Indenture required to be performed by it. The District may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose. The obligation of the District to make the Debt Service Payments and the other amounts due under the Indenture is a special obligation of the District payable solely from the moneys legally available therefor under the Indenture, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Compliance with Indenture

The District will not suffer or permit any material default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by it.

Observance of Laws and Regulations

The District will truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Enterprise by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District with respect to the Enterprise to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits

The District shall promptly, upon request of the Trustee or any Owner holding at least 25% in principal amount of the Bonds from time to time, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Enterprise, whether now existing or hereafter developing and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Accounting Records and Statements

The Trustee will keep complete and correct accounting records in which accurate entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Debt Service Payments, and such accounting records shall be available for inspection by the District or any Owner or his or her agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee.

Further Assurances

Whenever and so often as requested to do so by the Trustee or any Owner, the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Indenture.

Against Encumbrances

The District covenants that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Bonds. The District will not make any pledge of or place any lien on the Net Revenues, provided that the District may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations or other obligations permitted by the Indenture, or subordinate to the pledge of Net Revenues in the Indenture.

Against Sale or Other Disposition of Property

The District will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless the Treasurer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold, exchanged or otherwise disposed of at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund. The District will not enter into any agreement or lease which would impair the ability of the District to meet the rate covenant set forth in the Indenture or which would otherwise impair the rights of the Bond Owners or the operation of the Enterprise.

Notwithstanding any other provision of the Indenture, the ownership of components of the Enterprise may be transferred by the District to the Agency to facilitate operations and provide operational savings. Prior to any such transfer, the District shall certify in writing to the Trustee that such transfer will not materially adversely affect the operation of the Enterprise or the collection of Net Revenues.

Against Competitive Facilities

Except for any utility system existing as of the date of the Indenture, the District will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private entity, authority, district or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Enterprise.

Tax Covenants

The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest on the Bonds to become includable in gross income for federal income tax purposes. To that end, the District hereby makes the following specific covenants:

(a) The District covenants that it shall not make or permit any use of the proceeds of the Bonds that may cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The District covenants that the proceeds of the Bonds will not be used as to cause the proceeds on the Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(c) The District covenants not to take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Maintenance and Operation of the Enterprise

The District will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable.

Payment of Claims

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the District or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the District shall not be obligated to make such payment so long as the District contracts such payment in good faith.

Compliance with Contracts

The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Enterprise and all other contracts affecting or involving the Enterprise to the extent that the District is a party thereto, including, without limitation, Parity Obligations.

Insurance

The District will procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises. In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The District shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the redemption of Bonds. Alternatively, if the proceeds of such insurance are sufficient to enable the District to retire all outstanding Parity Obligations and the Bonds and all other amounts due hereunder and under the Indenture, the District may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the redemption of Bonds and to the payment of all other amounts due hereunder, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

In lieu of obtaining insurance coverage as required by the Indenture, such coverage may be maintained by the District in the form of self-insurance so long as the District certifies to the Trustee that (a) the District has segregated amounts in a special insurance reserve meeting the requirements of the Indenture; (b) an Insurance Consultant certifies annually, on or before January 1 of each year in which self-insurance is maintained, in writing to the Trustee that the District's general insurance reserves are actuarially sound and are adequate to provide the necessary coverage and the Trustee may conclusively rely thereon; and (c) such reserves are held in a separate trust fund by an independent trustee.

Books and Accounts; Financial Statements

The District will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding or their representatives authorized in writing. District will prepare annually not more than two hundred seventy (270) days after the close of each Fiscal Year a summary statement showing the amount of the Revenues and the disbursements from the Revenues, and the Maintenance and Operation Costs, in reasonable detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise. The District will furnish a copy of such summary statement to the Trustee and any Owner upon request.

Payment of Taxes and Compliance with Governmental Regulations

The District will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Enterprise or any part thereof, but the District shall not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Operation of Enterprise

The District will, so long as the Bonds are Outstanding, continue to operate the Enterprise and shall have in effect at all times, except as otherwise provided by law, rules and regulations requiring all users of the Enterprise provided by the District that is provided or made available to pay the rates, fees and charges applicable to the Enterprise provided or made available to such users, and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after such bill becomes delinquent, the District, in accordance with law, may refuse to provide or make available the services provided by the Enterprise to such premises until all delinquent rates, fees and charges and penalties have been paid in full. Except in connection with the receipt of federal or State funding, or as required by law or as a condition to the acquisition or operation of the Enterprise, the District will not permit any part of the Enterprise, or any facility thereof, to be used, or taken advantage of, free of charge by any person, firm or corporation, or by any public agency (including the United States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof), excepting only that the District may without charge use the services and facilities of the Enterprise.

Eminent Domain Proceeds

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, at the election of the District (evidenced by a Written Certificate of the District filed with the Trustee) shall either (a) be used for the acquisition or construction of improvements and extension of the Enterprise, or (b) be paid to the Trustee to be applied to redeem the Bonds or any Parity Obligations, in accordance with written instructions of the District filed with the Trustee.

Rebate of Excess Investment Earnings to United States

The District shall calculate or cause to be calculated, and shall provide, or cause to be provided, written notice to the Trustee of the excess investment earnings (as defined in the Code, "Excess Investment Earnings") at such times and in such manner as may be required pursuant to the Code. The District shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations is given promptly to the Trustee. The District agrees to deposit with the Trustee, promptly upon the receipt of any such calculations, the amount of Excess Investment Earnings so calculated. The Trustee shall deposit all amounts paid to it for such purpose by the District in the Rebate Fund, and shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the District for such purpose from time to time.

Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the District of any Debt Service Payment when and as the same shall become due and payable;

(b) default shall be made by the District in the performance of any of the agreements or covenants contained in the Indenture required to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee;

(c) the District shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, subject to the provisions of the Indenture, exercise any remedies available to the Trustee and the Bondowners in law or at equity.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with the Indenture. This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee, including those of its attorneys, and any and all other defaults known to the District (other than in the payment of such principal amount of the Bonds and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Other Remedies of the Trustee

The Trustee may (subject to the receipt of indemnity as provided in the Indenture):

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the District, or any board member, officer or employee thereof, and compel the District or any such board member, officer or employee to perform and carry out its or his or her duties under applicable law and the agreements and covenants contained in the Indenture required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Bondowners under the Indenture;

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or under the Indenture; or

(d) by suit in equity upon the happening of an Event of Default require the District and its officers and employees to account as the trustee of an express trust.

Non-Waiver

A waiver of any default or breach of duty or contract by the Trustee or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee. If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

No Liability by the Trustee to the Owners

Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the District, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Debt Service Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Indenture.

Limitation on Owners' Right to Bring Suit

No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, at law or in equity, unless:

(1) such Owner has previously given written notice to the Trustee of a continuing Event of Default;

(2) the owners of not less than a majority in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture;

(3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner in the Indenture provided and for the equal and ratable benefit of all Bonds and Parity Obligations. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and of the Indenture and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights shall not be impaired without the consent of such Owner.

Application of Funds Upon Default

All monies received by the Trustee or by any receiver pursuant to any right given or action taken shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Debt Service Account and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the funds and accounts maintained by the Trustee under Article III of the Indenture, shall be applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and any Parity Obligations, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds and any Parity Obligations which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds and any Parity Obligations due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds and any Parity Obligations, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds or any Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Rights of the Owners of Parity Obligations

Notwithstanding anything to the contrary, it is acknowledged and agreed that the rights of the Trustee and the Owners under the Indenture in and to the Net Revenues and the Enterprise shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners.

The Trustee

The District, in its sole discretion, or the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the District shall appoint a successor Trustee, but any such successor shall be a bank, national banking association or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars ($50,000,000) and subject to supervision or examination by federal or state authority. The Trustee may at any time resign by giving written notice to the District and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the District an appropriate court having jurisdiction to appoint a successor Trustee or to resign.

Whenever in the administration of its duties under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter.

The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds issued pursuant to the Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and its affiliates, either as sponsor, advisor, principal or agent, may also engage in or be interested in any financial or other transaction with the District, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or other obligations of the District as freely as if it were not Trustee under the Indenture.

The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. The Trustee shall be fully reimbursed by the District for reasonable expenses incurred in connection with the performance of its obligations under the Indenture. Upon any default by, or misconduct of, any agent, attorney or receiver appointed by the Trustee, the Trustee shall fully pursue all remedies available to it against such attorney, agent or receiver, and the proceeds of the exercise of such remedies shall be used to reimburse the District for any loss it may have suffered as a result of the default or misconduct of such agent, attorney or receiver. Before taking any remedial action under the Indenture the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or willful misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Bonds.

The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use in the conduct of such person's own affairs. The Trustee shall not be deemed to have knowledge of an Event of Default (except in connection with a failure of the District to make Debt Service Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default. No provision of the Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture. The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The Trustee shall not be liable to the parties or deemed in breach or default under the Indenture if and to the extent its performance under the Indenture is prevented by reason of *force majeure*. The term "*force majeure*" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. *Force majeure* shall include but not be limited to acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

Amendment or Supplement by Consent of Owners

The Indenture may be amended in writing by agreement between the District and the Trustee, but no such amendment or supplement shall (i) reduce the rate of interest evidenced by the Bonds or extend the time of payment of such interest or reduce the amount of principal thereof or extend the Maturity Date thereof without the prior written consent of the Owner thereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the District, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture which the District and the Trustee may enter into, but without the consent of any Bond Owners, if the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the District other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the District;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds; or

(e) to authorize the issuance of Parity Obligations.

Defeasance

Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, before maturity, money which, together with the amounts which are then on deposit in the Payment Fund and available therefor, is fully sufficient to pay such Bonds, including all principal and interest; or

(c) by depositing with the Trustee under an escrow deposit and trust agreement, cash, non-callable Federal Securities or pre-refunded non-callable municipal obligations rated “AAA” or “Aaa” by S&P and Moody’s, respectively (or any combination thereof) (the “Defeasance Obligations”) in such amount as an Independent Certified Public Accountant shall determine will, together with the interest to accrue thereon and moneys then on deposit (or a pro rata share thereof) in the Payment Fund available therefor, together with the interest to accrue thereon, be fully sufficient to pay and discharge such Bonds (including all principal and interest) at or before their respective maturity dates.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the District and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon.

Unclaimed Moneys

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee shall pay such amounts to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for interest and principal represented by such Bonds.

Benefits of Indenture Limited to Parties

Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the District, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

Waiver of Personal Liability

No board member, officer or employee of the District shall be individually or personally liable for the payment of the interest or principal the Bonds, but nothing contained in the Indenture shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Indenture.

Investments

Amounts on deposit in any fund or account created pursuant to the Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement under the Indenture, in accordance with such written directions as the District may from time to time provide to the Trustee. The Trustee and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under. Interest or profit received on such investments shall be deposited to the Payment fund. In computing the amount in any fund or account, Permitted Investments shall be valued at market value, exclusive of accrued interest. Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other nonconforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated.

California Law

The Indenture shall be construed and governed in accordance with the laws of the State of California.

Payments Due on Days that are not Business Days

In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2012/13

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ROWLAND WATER DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2013 AND 2012

ROWLAND WATER DISTRICT

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June 30, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rowland Water District
Rowland Heights, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Rowland Water District (the District), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rowland Water District as of June 30, 2013 and 2012 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

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

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

Other Matters

Required Supplementary Information

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

Other Matters (Continued)

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
November 12, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2013

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

Fiscal Year 2012 (As Restated)

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 18 of the Financial Statements. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These statements report the net position of the District and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET POSITION

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

TABLE 1
Condensed Statements of Net Position

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

See independent auditors' report.

NET POSITION (CONTINUED)

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

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

Sentous Rehabilitation

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

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

NET POSITION (CONTINUED)

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

Walnut Creek Energy Park

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

Lease of Central Basin Groundwater Rights

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

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

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

While the Statement of Net Position shows the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, Loss before Capital Contributions of $(1,836,276) and Capital Contributions of $328,639 resulted in a decrease in ending net position of $(1,507,637) or an increase of 34.46% in fiscal year 2013.

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

NET POSITION (CONTINUED)

The main factor attributing to the increase in operating revenues was an increase in the water rate and service charge that became effective on January 1, 2013. The base rate increase $0.22 from $2.30 to $2.52 or 9.57%. Water use over 16 hcf is paid at a higher rate. The monthly service charge for standard 5/8" to 3/4" meters increased $4.22 from $19.31 to $23.52 or 21.85%. The District continues to use conservation rates that were initially implemented in January, 2009. The conservation rates as of January, 2013 were a base rate of $2.52 for 1-16 hcf, $2.90 for 17-23 hcf, and $3.65 for 24+ hcf. The District has six different pumping zones. Pumping charges cover the energy costs to pump water to each zone of elevation over Zone 1. The additional pumping cost is added to the base rate if the property resides in Zone 2 through Zone 6.

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

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

See independent auditors' report.

BUDGETARY HIGHLIGHTS

TABLE 3
Budget vs. Actual

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

In looking at Table 3, Budget vs. Actual, the discrepancy in net income over budgeted change in net position and change in net position is $(228,276) or 14.20%. Total Revenues shows a positive variance of $1,855,001 or 10.41% from actual.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

TABLE 4
Capital Assets

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

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

See independent auditors' report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

DEBT ADMINISTRATION

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

TABLE 5
Noncurrent Liabilities

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

The District currently has four sources of Noncurrent Liabilities in 2013. The Certificates of Participation (COP) issued in January 2009 were used for the expansion of the District's Recycled Water System. The goal is to lower the dependence on import water by producing recycled water at a lower cost. Recycled water can be used for irrigation at school, parks, industrial buildings, etc. In November 2012, the District entered into an installment purchase contract with Puente Basin Water Agency in order to finance the acquisition of certain water system improvements. The liability is payable over the next thirty years. The increase in compensated absences is attributed to more sick and vacation time being due to current employees. Compensated absences are District liabilities for accrued unpaid sick and vacation time. These liabilities would have to be paid at the employee's retirement or separation from service. Net OPEB obligations refer to Other Post Employment Benefits that would be owed to employees upon retirement. The Net OPEB obligation is the difference between the actuarially-determined annual required contribution and the actual contributions made. The District currently funds these expenses on a pay-as-you-go basis, but is funding a GASB 45 trust to help offset the future cost of Other Post Employment Benefits.

Additional information on the District's noncurrent liabilities can be found in Notes 7 - 9 and 12 of the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

TABLE 6
Fiscal Year 2014 Budget vs. Fiscal Year 2013 Actual

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

See independent auditors' report.

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 POSITION

June 30, 2013 and 2012

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

(Continued)

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

ROWLAND WATER DISTRICT

STATEMENTS OF NET POSITION
(CONTINUED)

June 30, 2013 and 2012

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

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

ROWLAND WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the years ended June 30, 2013 and 2012

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

(Continued)

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

ROWLAND WATER DISTRICT

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

For the years ended June 30, 2013 and 2012

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

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

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

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

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

ROWLAND WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the years ended June 30, 2013 and 2012

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

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

   b. Basis of Presentation:

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

   c. Measurement Focus and Basis of Accounting:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Implemented:

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

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

Pending Accounting Standards:

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

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62",* effective for periods beginning after December 15, 2012.

- GASB 67 - *"Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25"*, effective for the fiscal years beginning after June 15, 2013.

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   d. New Accounting Pronouncements (Continued):

   Pending Accounting Standards (Continued):

   - GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.

   - GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the periods beginning after June 15, 2013.

   e. Deferred Outflows/Inflows of Resources:

   In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any deferred outflows of resources to report.

   In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any deferred inflows of resources to report.

   f. Net Position:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Net Position (Continued):

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

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

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

g. Uniform System of Accounts for Water Utility Districts:

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

h. Operating Revenues and Expenses:

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

i. Cash and Cash Equivalents:

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

j. Investments:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Restricted Assets:

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

l. Accounts Receivable:

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

m. Inventories and Water in Storage:

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

n. Capital Assets and Depreciation:

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

o. Capitalized Interest:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Restricted Liabilities:

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

q. Unearned Construction Advances and Capital Contributions:

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

r. Property Taxes:

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

The property tax calendar is as follows:

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

s. Compensated Absences:

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

t. Claims and Judgments:

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2013 and 2012, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

u. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments:

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

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

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

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

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, 2013 and 2012.

June 30, 2013	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	$ 250,673	$ 519,375	$ 261,270	$ 1,197,142	$ 2,228,460
U.S. Government Sponsored					
Agency Securities:					
Federal Home Loan Bank	501,633	801,903	-	-	1,303,536
Federal Home Loan					
Mortgage Corporation	507,746	260,113	-	2,112,738	2,880,597
Federal National					
Mortgage Association	1,016,352	103,246	259,880	4,098,642	5,478,120
Federal Farm Credit Bank	254,777	-	-	-	254,777
LAIF	1,613,948	-	-	-	1,613,948
Money Market Mutual Funds	349,603	-	-	-	349,603
Held by Trustee:					
U.S. Treasury Notes	-	-	-	1,466,846	1,466,846
Investment Agreement	-	-	-	1,155,575*	1,155,575
Money Market Mutual Funds	17,684,337	-	-	-	17,684,337
	$ 22,179,069	$ 1,684,637	$ 521,150	$ 10,030,943	$ 34,415,799

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

* Investment agreement expires December 3, 2018

See independent auditors' report.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the Standard and Poor's credit ratings for the Districts investments as of June 30, 2013 and 2012. U.S. treasury notes and bills are not required to be rated and, therefore, have been excluded from the tables below.

June 30, 2013

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

June 30, 2012

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

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

* - Not over 5%

Custodial Credit Risk:

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

As of June 30, 2013 and 2012, the District had no uninsured and 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, 2013	June 30, 2012
Deposits from customers	Security deposits for payment of utility bills	$ 176,465	$ 159,409
Customer advances	Construction	139,226	431,697
Bond proceeds	Debt service	2,638,352	1,524,688
Bond proceeds	Construction projects	17,668,406	-
		$ 20,622,449	$ 2,115,794

See independent auditors' report.

4. CAPITAL ASSETS:

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

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

See independent auditors' report.

4. CAPITAL ASSETS (CONTINUED):

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

	Balance July 1, 2011	Additions	Retirements Transfers	Balance June 30, 2012 (As Restated)
Capital assets, not being depreciated:				
Land	$ 261,340	$ -	$ -	$ 261,340
Water rights	5,000	-	-	5,000
Construction in progress, as restated	2,704,517	1,836,999	(1,437,884)	3,103,632
Total capital assets, not being depreciated	2,970,857	1,836,999	(1,437,884)	3,369,972
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	$ 1,256,563	$(1,445,626)	$ 61,698,032

See independent auditors' report.

5. OTHER RECEIVABLE:

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

6. INVESTMENT IN JOINT VENTURES:

Puente Basin Water Agency:

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

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

The District records its investment in the Puente Basin Water Agency as an other noncurrent asset, Investment in Joint Ventures, primarily capital assets. The changes in its investment in Puente Basin Water Agency consisted of the following:

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

See independent auditors' report.

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

Puente Basin Water Agency (Continued):

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

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

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

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

Pomona-Walnut-Rowland Joint Water Line Commission:

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

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

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

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

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

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

	2013	2012
Beginning of year	$ 629,428	$ 617,395
Share in income	10,214	12,033
End of year	$ 639,642	$ 629,428

The following is condensed financial information of the investment in Pomona-Walnut-Rowland Joint Waterline Commission as of and for the year ended June 30, 2013 including the participants' approximate percentage shares:

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

See independent auditors' report.

6. INVESTMENT IN JOINT VENTURES (CONTINUED):

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

The following is condensed financial information of the investment in Pomona-Walnut-Rowland Joint Waterline Commission as of and for the year ended June 30, 2012 including the participants' approximate percentage shares:

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

7. CERTIFICATES OF PARTICIPATION:

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

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

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

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

See independent auditors' report.

7. CERTIFICATES OF PARTICIPATION (CONTINUED):

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

Year Ending	Principal	Interest	Total
2014	$ 315,000	$ 1,165,975	$ 1,480,975
2015	330,000	1,149,850	1,479,850
2016	345,000	1,132,975	1,477,975
2017	365,000	1,114,313	1,479,313
2018	385,000	1,104,275	1,489,275
2019 - 2023	2,260,000	5,138,544	7,398,544
2024 - 2028	2,990,000	4,567,869	7,557,869
2029 - 2033	4,055,000	3,341,400	7,396,400
2034 - 2038	5,595,000	1,799,769	7,394,769
2039 - 2040	2,780,000	263,438	3,043,438
Total	$ 19,420,000	$ 20,778,408	$ 40,198,408

8. INSTALLMENT PURCHASE CONTRACT PAYABLE:

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

The bond premium is being amortized and recognized as interest expense over the life of the debt on a straight-line basis. The installment purchase contract payments mirror the debt service payments on the water revenue bonds. Interest is payable semi-annually on December 1 and June 1 at rates ranging from 2.00% to 5.00%. The District's obligation to make installment payments is a special obligation of the District payable solely from the net revenues of the District. The required reserve for contract is $1,181,250 and as of June 30, 2013 the reserve was funded at $1,160,698.

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

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

See independent auditors' report.

8. INSTALLMENT PURCHASE CONTRACT PAYABLE (CONTINUED):

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

Year Ending	Principal	Interest	Total
2014	$ 380,000	$ 777,241	$ 1,157,241
2015	385,000	766,350	1,151,350
2016	395,000	756,575	1,151,575
2017	410,000	742,450	1,152,450
2018	425,000	725,750	1,150,750
2019 - 2023	2,390,000	3,374,275	5,764,275
2024 - 2028	2,905,000	2,860,375	5,765,375
2029 - 2033	3,405,000	2,359,456	5,764,456
2034 - 2038	4,035,000	1,736,719	5,771,719
2039 - 2042	5,105,000	663,625	5,768,625
Total	$ 19,835,000	$ 14,762,816	$ 34,597,816

9. COMPENSATED ABSENCES:

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

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

10. DEFERRED COMPENSATION PLAN:

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

11. EMPLOYEE RETIREMENT PLANS:

a. Plan Description:

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

b. Funding Policy:

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

11. EMPLOYEE RETIREMENT PLANS (CONTINUED):

b. Funding Policy (Continued):

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

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

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

12. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

The District has a single-employer other post-employment benefit plan that provides medical, dental and vision coverage to 24 active employees and 8 retired employees through the ACWA health program. At retirement, the District provides a contribution for the continuation of these coverage's for eligible retirees. Eligibility for a District contribution requires retirement from the District and under PERS on or after age 50 with at least 5 years of service. The District provides 100% of the cost of coverage for the retiree and any covered spouse.

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

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

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

b. Funding Policy:

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

c. Annual OPEB Cost and Net OPEB Obligation:

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

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

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

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

d. Three-Year Trend Information:

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2013, 2012 and 2011 were as follows:

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

e. Funded Status and Funding Progress:

As of July 1, 2012, the plan was 8.99% percent funded. The actuarial accrued liability for benefits was $4,499,844, and the actuarial value of assets was $404,434, resulting in an unfunded actuarial accrued liability (UAAL) of $4,095,410. The estimated covered payroll (annual payroll of active employees covered by the plan) was $2,145,129 and the ratio of the UAAL to the covered payroll was 190.92%.

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

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

f. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The entry age normal cost method was used for the actuarial valuation as of July 1, 2012. Significant assumptions included a discount rate of 5% per annum, projected salary increases of 3.25% per annum and medical trend rates that start at 9.0% for HMO and 9.5% for PPO coverage in the initial year and are decreased 0.5% per year to an ultimate rate of 5.0%. The unfunded actuarial accrued liability is being amortized over an initial 30 years using the level-percentage-of-pay method on a closed-basis. The remaining amortization period is 30 years.

13. RISK MANAGEMENT:

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

At June 30, 2013, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to $50,000 per occurrence and has purchased excess insurance coverage up to $100,000,000 (total insurable value of $43,363,657). The District has a $2,500 deductible for buildings, personal property and fixed equipment, a $1,000 deductible for mobile equipment and a $500 deductible for licensed vehicles.

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

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

13. RISK MANAGEMENT (CONTINUED):

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

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

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

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

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

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

14. UNRESTRICTED NET POSITION:

The District has adopted a policy to designate reserves of unrestricted net position. Total reserves were designated as follows as of June 30, 2013 and 2012:

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

See independent auditors' report.

15. COMMITMENTS AND CONTINGENCIES:

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

16. RESTATEMENT OF NET POSITION:

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

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

See independent auditors' report.

16. RESTATEMENT OF NET POSITION (CONTINUED):

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

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

17. SUBSEQUENT EVENTS:

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

See independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Retiree Health Plan

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Estimated Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
07/01/09	$ 4,645,724	$ -	$ 4,645,724	0.00%	$ 1,964,000	236.54%
07/01/12	$ 4,499,844	$ 404,434	$ 4,095,410	8.99%	$ 2,145,129	190.92%

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

ROWLAND WATER DISTRICT

SCHEDULES OF OTHER OPERATING EXPENSES

For the years ended June 30, 2013 and 2012

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

See independent auditors' report.

ROWLAND WATER DISTRICT

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended June 30, 2013 and 2012

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

See independent auditors' report.

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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

The Board of Directors
Rowland Water District
Rowland Heights, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rowland Water District (the District) as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2013.

Internal Control Over Financial Reporting

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

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

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

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

Offices located in Orange and San Diego Counties

Internal Control Over Financial Reporting (Continued)

Construction-in-Progress

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

Compliance and Other Matters

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

Purpose of This Report

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

White Nelson Diehl Evans LLP

Irvine, California
November 12, 2013

APPENDIX C

FORM OF BOND COUNSEL OPINION

[Addressees]

Re: $_________ Rowland Water District Water Revenue Refunding Bonds, Series 2014A

Ladies and Gentlemen:

We have acted as Bond Counsel to the Rowland Water District (the "District") in connection with the sale, execution and delivery of $________ aggregate principal amount of the District's Water Revenue Refunding Bonds, Series 2014A (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including the provisions of Articles 10 and 11, Chapter 3, Part 1, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended (the "Bond Law"), and an Indenture of Trust, dated as of September 1, 2014 (the "Indenture") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The proceeds of the Bonds are being used to refinance certain outstanding obligations of the District. The District is obligated under the Indenture to pay principal of and interest on the Bonds solely from Net Revenue. All capitalized terms used herein and not otherwise defined shall have the same meanings assigned to them in the Indenture.

As Bond Counsel we have examined copies certified to us as being true and complete copies of the proceedings of the District and in connection with the authorization and sale of the Bonds. In this connection, we have also examined such other documents, opinions and instruments as we have deemed necessary in order to render the opinions expressed herein. In such examination, we have assumed the genuineness of all signatures on original documents (other than signatures of the District) and the conformity to the original documents of all copies submitted to us. We have also assumed the due execution and delivery of all documents (other than with respect to the District) which we have examined where due execution and delivery are a prerequisite to the effectiveness thereof. As to the various questions of fact material to our opinion, we have relied upon statements or certificates of officers and representatives of the District, public officials and others.

On the basis of the foregoing examination and assumptions and in reliance thereon and on all such other matters of fact as we deemed relevant under the circumstances, and upon consideration of the applicable law, we are of the opinion that:

1. The Indenture has been duly adopted by the District and constitutes the valid and binding obligation of the District enforceable against the District in accordance with its terms. The Indenture creates a valid lien on and pledge of the Net Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture, on a parity basis with all additional parity obligations issued pursuant to the Indenture.

2. The Bonds have been duly authorized, issued and delivered by the District and are valid and binding special obligations of the District, payable solely from the sources provided therefor in the Indenture.

3. The obligation of the District to make payments on the Bonds does not constitute a debt of the District, or of the State of California or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Interest received by the owners of the Bonds is excludable under existing statutes, regulations, rulings and court decisions, from gross income for Federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that the interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest received by the owners of the Bonds is exempt from personal income taxes of the State of California under present law.

In rendering the opinions expressed in paragraph 4 above, we are relying upon representations and covenants of the District in the Indenture and in the Tax Certificate of the District, dated as of the date hereof, concerning the use of the facilities refinanced with Bond proceeds, the investment and use of Bond proceeds and the rebate, if any, to the federal government of certain earnings thereon. In addition, we have assumed that all such representations are true and correct and that the District will comply with such covenants. We express no opinion with respect to the exclusion of the interest from gross income under Section 103(a) of the Code in the event that any such representations are untrue or the District fails to comply with such covenants. Except as stated above, we express no opinion as to any federal tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any payment of interest on the Bonds if any such change occurs or action is taken or omitted to be taken upon the advice or approval of counsel other than ourselves.

Further, we note that the rights of the owners of the Bonds and the enforceability of the Bonds or the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility herein for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Respectfully submitted,

NOSSAMAN LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of September 1, 2014, is executed and delivered by the Rowland Water District ("District") and Urban Futures, Inc. (the "Dissemination Agent"), as dissemination agent in connection with the execution and delivery of the above-entitled bonds (the "Bonds"). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of September 1, 2014 (the "Indenture") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Reports provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the General Manager or Assistant General Manager of the District, or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Urban Futures, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Fiscal Year" shall mean the twelve month period beginning on July 1 of each year and ending on June 30 of such year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean the MSRB.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, annually not later than two hundred seventy (270) days after the end of the District's fiscal year, commencing with the report for the fiscal year ending June 30, 2014, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the District and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date specified in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in substantially the form attached as Attachment A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) provide notice to the District that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the most recent audited financial statements of the District prepared in accordance with generally accepted accounting principles promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. In addition, commencing for the Annual Report for Fiscal Year 2014/15, the Annual Report shall contain an annual updating of the following tables and information contained in the Official Statement:

(i) Summary of Operations for the Fiscal Year (Table 1);
(ii) Ten Largest Potable Water Users (Table 6);
(iii) Summary of Changes in Rates and Charges from Prior Fiscal Year; and
(iv) Projected Operating Results (for only the fiscal year of such Annual Report) (Table 11).

In addition to any of the information expressly required to be provided under this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than 10 business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4, as provided in Section 4(b).

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described Section 5(b), the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing:

(i) Notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent to the extent it has knowledge thereof, unless the District gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) Notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of the affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the District. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the District, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the District and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Bonds, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto, including without limitation, fees and expenses of its attorneys), or any Bond owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Dissemination Agent. The Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under said Indenture. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the District all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the District, the owners of the Bonds or any other party. The obligations of the District under this section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

ROWLAND WATER DISTRICT

By: ________________________________
General Manager

URBAN FUTURES, INC., as Dissemination Agent

By: ________________________________
Authorized Officer

EXHIBIT A

NOTICE OF MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Rowland Water District
Name of Issue:	Water Revenue Refunding Bonds, Series 2014A
Date of Issuance:	___________, 2014

NOTICE IS HEREBY GIVEN that the Rowland Water District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement. The District anticipates that the Annual Report will be filed by _________________________.

Dated: _____________________

URBAN FUTURES, INC., as Dissemination Agent

By: _______________________________
Authorized Officer

cc: District;

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APPENDIX E

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve Enterprise, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing corporation" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has been rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. THE AUTHORITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE TRUSTEE AND THE AUTHORITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT

SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION “TAX MATTERS” HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture.

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