

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: See the caption “RATINGS”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2015B Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015B Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the 2015B Bonds.

\$74,430,000

**EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2015B**

Dated: Date of Delivery

Due: July 1, as shown on inside front cover

The 2015B Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the 2015B Bonds will not receive certificates representing their beneficial ownership in the 2015B Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2015B Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2016. Payment of the principal of and interest on the 2015B Bonds is to be made to Cede & Co., which is to disburse said payments to the Beneficial Owners of the 2015B Bonds through their nominees.

The 2015B Bonds are subject to optional redemption and mandatory sinking fund redemption, all as more fully described herein.

The 2015B Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements for the District’s Water and Sewer System; and (ii) to pay costs incurred in connection with the issuance of the 2015B Bonds.

The 2015B Bonds are being delivered pursuant to the Indenture of Trust, dated as of June 1, 2015, by and between the Eastern Municipal Water District Financing Authority and MUFJ Union Bank, N.A., as trustee. THE 2015B BONDS ARE A SPECIAL LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AUTHORITY REVENUES, WHICH CONSIST OF INSTALLMENT PAYMENTS TO BE MADE BY THE DISTRICT TO THE AUTHORITY PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT, DATED AS OF JUNE 1, 2015, BY AND BETWEEN THE DISTRICT AND THE AUTHORITY, AND FROM CERTAIN OTHER FUNDS AND ACCOUNTS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE 2015B BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE 2015B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the District to pay the Installment Payments is: (i) subordinate to the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$563,345,200; and (ii) on a parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$148,585,000 and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. The District may incur additional obligations payable on a senior basis to the Installment Payments, subject to the terms and conditions of the Master Resolution, as more fully described herein. The District may also incur additional obligations payable from Net Revenues on a parity with the Installment Payments, subject to the terms and conditions of the Indenture, as more fully described herein.

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT 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. THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES OF THE DISTRICT’S WATER AND SEWER SYSTEM, CONSISTING OF WATER AND SEWER REVENUES REMAINING AFTER PAYING MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, AND DOES NOT CONSTITUTE 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 LIMITATION OR RESTRICTION.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE

(See inside front cover)

The 2015B Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the valid, legal and binding nature of the 2015B Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Authority by Lemieux & O’Neill, Westlake Village, California, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. It is anticipated that the 2015B Bonds will be available for delivery through the facilities of The Depository Trust Company on or about June 18, 2015.

BofA Merrill Lynch

Citigroup

Stifel

Dated: June 3, 2015

\$74,430,000
EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2015B

MATURITY SCHEDULE
BASE CUSIP[†] 27677S

\$16,095,000 5.000% Term 2015B Bond due July 1, 2040 – Yield: 3.620%, Price: 111.525^(c), CUSIP^{®†}: AA1

\$17,630,000 4.000% Term 2015B Bond due July 1, 2042 – Yield: 4.100%, Price: 98.373, CUSIP^{®†}: AB9

\$40,705,000 5.000% Term 2015B Bond due July 1, 2046 – Yield: 3.690%, Price: 110.903^(c), CUSIP^{®†}: AC7

[†] CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2015 CUSIP Global Services. All rights reserved. CUSIP[®] data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP[®] numbers are provided for convenience of reference only. None of the Authority, the District or the Underwriters take any responsibility for the accuracy of such numbers.

^(c) Priced to first optional redemption date of July 1, 2025 at par.

EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY

2270 Trumble Road
P.O. Box 8300
Perris, California 92572-8300

BOARD OF DIRECTORS OF THE AUTHORITY AND DISTRICT

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Sheila Zelaya, Board Secretary

DISTRICT GENERAL COUNSEL

Lemieux & O'Neill
Westlake Village, California

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

FINANCIAL ADVISOR

Public Financial Management Inc.
Los Angeles, California

TRUSTEE

MUFG Union Bank, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the District or the Authority to give any information or to make any representations in connection with the offer or sale of the 2015B Bonds 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 Authority. 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 2015B 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 or Owners of the 2015B 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 Underwriters have provided the following sentence for inclusion in this Official Statement:

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy these securities be accepted prior to the time that the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the 2015B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions "EASTERN MUNICIPAL WATER DISTRICT," "THE WATER SYSTEM OF THE DISTRICT," "THE WASTEWATER SYSTEM OF THE DISTRICT" and "FINANCIAL INFORMATION OF THE DISTRICT."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

IN CONNECTION WITH THE OFFERING OF THE 2015B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015B 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 UNDERWRITERS MAY OFFER AND SELL THE 2015B BONDS TO CERTAIN DEALERS, DEALER BANKS, BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE 2015B BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains an Internet website; however, information presented on such website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2015B Bonds.

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SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2015B Bonds to potential investors is made only by means of the entire Official Statement.

Purpose. The 2015B Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements for the District's Water and Sewer System, as described under the caption "THE PROJECT;" and (ii) to pay costs incurred in connection with the issuance of the 2015B Bonds.

Security for the 2015B Bonds. The 2015B Bonds are a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Installment Payments to be made by the District to the Authority pursuant to the Installment Purchase Agreement, and from amounts on deposit in certain funds and accounts established by the Indenture. Neither the full faith and credit nor any other revenues or funds of the Authority are pledged to or available for the payment of debt service on the 2015B Bonds. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2015B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District's Water and Sewer System, consisting of Water and Sewer Revenues remaining after paying Maintenance and Operation Costs and Parity Obligations that are currently outstanding in the aggregate principal amount of \$563,345,200.

The obligation of the District to make Installment Payments is on a parity with the obligation of the District to make payments on approximately \$148,585,000 aggregate principal amount of Bonds and Contracts and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. See Appendix A under the caption "THE DISTRICT—Debt Structure of the District."

The obligation of the District to make the Installment Payments under the Installment Purchase Agreement is absolute and unconditional, and until such time as all payments required thereunder have been paid in full (or provision for the payment thereof has been made as provided for in the Installment Purchase Agreement), the District will not discontinue or suspend any Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water and Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the Project has been completed, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT 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. THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND DOES NOT CONSTITUTE 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 LIMITATION OR RESTRICTION.

Rate Covenant. To the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably

expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 115% of the Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements. See the caption “SECURITY FOR THE 2015B BONDS—Rate Covenant.”

Additional Indebtedness. The District may make additional pledges of, and place additional liens, on the Water and Sewer Revenues that are senior to the pledge and lien securing the payment of the Installment Payments in accordance with the Master Resolution. The District may incur Bonds or Contracts payable on a parity with the Installment Payments provided that certain conditions are satisfied as described herein. Nothing in the Master Resolution or the Installment Purchase Agreement precludes the District from entering into obligations which are Maintenance and Operation Costs and, therefore, payable from Water and Sewer Revenues prior to the Installment Payments, or from issuing any bonds or executing contracts the payments under which are payable from Net Revenues subordinate to Bonds or Contracts of the District. See the caption “SECURITY FOR THE 2015B BONDS—Additional Obligations.”

Redemption. The 2015B Bonds are subject to optional redemption and mandatory sinking fund redemption. See the caption “THE 2015B BONDS—Redemption.”

Information Regarding the District. See Appendix A for financial, statistical and operating information regarding the District and its service area and Appendix B for the District’s audited financial statements for the Fiscal Year ended June 30, 2014.

\$74,430,000
EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2015B

INTRODUCTION

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2015B (the “2015B Bonds”). Descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined in this Official Statement have the meanings ascribed thereto in Appendix C.

The 2015B Bonds are being issued to provide funds: (i) to finance the acquisition and construction of certain improvements for the District’s Water and Sewer System, as described under the caption “THE PROJECT;” and (ii) to pay costs incurred in connection with the issuance of the 2015B Bonds.

The 2015B Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2015 (the “Indenture”), by and between the Eastern Municipal Water District Financing Authority (the “Authority”) and MUFG Union Bank, N.A., Los Angeles, California, as trustee (the “Trustee”). The 2015B Bonds are limited obligations of the Authority payable solely from Authority Revenues, which consist of payments (the “Installment Payments”) to be made by the Eastern Municipal Water District (the “District”) to the Authority pursuant to an Installment Purchase Agreement, dated as of June 1, 2015 (the “Installment Purchase Agreement”), by and between the District and the Authority, and from amounts on deposit in certain funds and accounts established by the Indenture.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District’s Water and Sewer System, consisting of Water and Sewer Revenues remaining after paying Maintenance and Operation Costs and Parity Obligations that are currently outstanding in the aggregate principal amount of \$563,345,200. See the caption “SECURITY FOR THE 2015B BONDS.”

The obligation of the District to make Installment Payments is payable from Net Revenues on a parity with the obligation of the District: (1) to make payments on the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014A (the “2014A Bonds”), which are currently outstanding in the aggregate principal amount of \$48,645,000; (2) to make payments on the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014B (the “2014B Bonds”), which are currently outstanding in the aggregate principal amount of \$45,175,000; (3) to make payments on the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014C (the “2014C Bonds”), which are currently outstanding in the aggregate principal amount of \$54,765,000; and (4) to make regularly scheduled payments on two interest rate swap agreements. See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.”

In or about late June 2015, the District expects to issue the Eastern Municipal Water District Water and Wastewater Revenue Bonds, Series 2015A (the “2015A Bonds”) in the approximate aggregate principal amount of \$50,000,000 to prepay the Eastern Municipal Water District Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2008G, which constitute Parity Obligations that are payable on a senior basis to the Installment Payments. If issued, the 2015A Bonds will be payable from Net Revenues on a parity with the Installment Payments. There can be no assurance that the 2015A Bonds will be issued as currently contemplated, or at all. See Appendix A under the caption “THE DISTRICT—Debt Structure of District—Subordinate Obligations.”

The District may incur additional Parity Obligations, which are payable on a senior basis to the Installment Payments, subject to the terms and conditions of the Master Resolution, as more fully described under the caption “SECURITY FOR THE 2015B BONDS—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution.” The District may also incur additional obligations payable from Net Revenues on a parity with the Installment Payments, subject to the terms and conditions of the Indenture, as more fully described under the caption “SECURITY FOR THE 2015B BONDS—Additional Obligations—Issuance of Additional Subordinate Obligations.”

The summaries and references to the Master Resolution, the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Certificate executed by the District as of the date of issuance of the 2015B Bonds (the “Continuing Disclosure Certificate”) and all other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by the provisions of the full such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Perris, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Master Resolution, the Installment Purchase Agreement or the Indenture and, as used herein, has the meaning given to it in the Master Resolution, the Installment Purchase Agreement or the Indenture, as applicable. See Appendix C for summaries of certain provisions of the Master Resolution, the Installment Purchase Agreement and the Indenture. Unless otherwise indicated, all financial and statistical information in this Official Statement has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related items. Any 2015B Bond Owner can obtain a copy of publicly available information from the District. Additional information concerning the Official Statement may be obtained by contacting the Trustee or the District’s Director of Finance, P.O. Box 8300, Perris, California 92572-8300, Telephone (951) 928-3777.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in Appendix A.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

Changes have been made to this Official Statement since the Preliminary Official Statement dated May 21, 2015 under the caption “LITIGATION—District—SDCWA Litigation” to reflect updated information with respect to certain litigation described therein.

THE PROJECT

The District expects to apply a portion of the proceeds of the 2015B Bonds to finance the following capital improvements (collectively, the “Project”): (1) certain capital improvements to the District’s water storage, groundwater and transmission systems, including but not limited to: (i) well development; (ii) distribution system reliability improvements, including booster system upgrades, new valves, system interconnection improvements and mainline replacements; and (iii) other plant and infrastructure replacements;

and (2) certain sewer reclamation replacement improvements and sewer transmission infrastructure in the Sun City and Temecula portions of the District’s service area.

Pursuant to the Installment Purchase Agreement, the District may substitute projects for the Project or add additional projects to the Project. See Appendix C under the caption “INSTALLMENT PURCHASE AGREEMENT—Sale and Purchase of the Project—Changes to the Project.”

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds:

| | |
|----------------------------------|----------------------|
| Sources⁽¹⁾: | |
| Principal Amount of Bonds | \$ 74,430,000 |
| Plus Net Original Issue Premium | <u>6,006,175</u> |
| Total Sources: | \$ 80,436,175 |
| | |
| Uses⁽¹⁾: | |
| Acquisition Fund | \$ 80,000,000 |
| Costs of Issuance ⁽²⁾ | <u>436,175</u> |
| Total Uses: | \$ 80,436,175 |

(1) Amounts rounded to the nearest dollar.

(2) Includes certain legal, financing, rating agency and Trustee fees, Underwriters’ discount and printing costs.

THE 2015B BONDS

General Provisions

The 2015B Bonds will be issued in the aggregate principal amount of \$74,430,000. The 2015B Bonds will bear interest from and be dated the date of initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the 2015B Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2016. Interest will be calculated at the rates set forth on the inside front cover page hereof and on the basis of a year of 360 days comprised of twelve 30 day months.

The 2015B Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2015B Bonds. Ownership interests in the 2015B Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book-Entry Only System” below and Appendix E.

In the event that the book-entry only system described below is discontinued, the principal of and interest on any 2015B Bond will be payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the Office of the Trustee in Los Angeles, California. Such principal and interest will be payable in lawful money of the United States of America.

Book-Entry Only System

One fully-registered 2015B Bond will be issued for each maturity of the 2015B Bonds in the principal amount of the 2015B Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2015B Bonds is registered in the name of Cede & Co., the term “Owner” as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the 2015B Bonds (the “Beneficial Owners”).

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2015B Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the 2015B Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is discontinued, the 2015B Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2015B Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2015B Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2015B Bond during the period in which the Trustee is selecting 2015B Bonds for redemption and any 2015B Bond that has been selected for redemption.

Whenever any 2015B Bond is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new 2015B Bond or 2015B Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2015B Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2015B Bonds, the Trustee will cancel and destroy the 2015B Bonds it has received.

2015B Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any 2015B Bond during the period in which the Trustee is selecting 2015B Bonds for redemption and any 2015B Bond that has been selected for redemption. The Trustee will require the 2015B Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2015B Bonds, the Trustee will cancel and destroy the 2015B Bonds it has received.

Redemption

Optional Redemption. The 2015B Bonds will be subject to redemption prior to their respective stated maturities, as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000, on or after July 1, 2025, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2015B Bonds with stated maturities on July 1, 2040 are subject to mandatory sinking fund redemption in part (by lot) on each July 1 on and after July 1, 2039, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

| <i>Redemption Date (July 1)</i> | <i>Principal Amount</i> |
|-------------------------------------|-----------------------------|
| 2039 | \$7,840,000 |
| 2040* | 8,255,000 |

* Final Maturity.

The 2015B Bonds with stated maturities on July 1, 2042 are subject to mandatory sinking fund redemption in part (by lot) on each July 1 on and after July 1, 2041, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

| <i>Redemption Date (July 1)</i> | <i>Principal Amount</i> |
|-------------------------------------|-----------------------------|
| 2041 | \$8,635,000 |
| 2042* | 8,995,000 |

* Final Maturity.

The 2015B Bonds with stated maturities on July 1, 2046 are subject to mandatory sinking fund redemption in part (by lot) on each July 1 on and after July 1, 2043, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for redemption, without premium, in accordance with the following schedule:

| <i>Redemption Date (July 1)</i> | <i>Principal Amount</i> |
|-------------------------------------|-----------------------------|
| 2043 | \$ 9,415,000 |
| 2044 | 9,905,000 |
| 2045 | 10,425,000 |
| 2046* | 10,960,000 |

* Final Maturity.

Partial Redemption of 2015B Bonds. Upon surrender of any 2015B Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2015B Bond or 2015B Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2015B Bonds surrendered and of the same series, interest rate and maturity.

Selection of 2015B Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the 2015B Bonds, the Trustee will select the 2015B Bonds for redemption as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000 in accordance with the provisions set forth above under the caption “—Redemption.” The Trustee will promptly notify the Authority in writing of the numbers of the 2015B Bonds or portions thereof so selected for redemption.

Notice of Redemption

Notice of redemption will be mailed by first class mail not less than 30 days before any Redemption Date, to the respective Owners of any 2015B Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services. Each notice of

redemption will state the date of notice, the redemption date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2015B Bonds of any such maturity are to be redeemed, the serial numbers of the 2015B Bonds of such maturity to be redeemed by giving the individual number of each 2015B Bond or by stating that all 2015B Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2015B Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said 2015B Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2015B Bond to be redeemed in part only, together with, interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon ceases to accrue, and will require that such 2015B Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2015B Bond. Notice of redemption of 2015B Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

With respect to any notice of optional redemption of 2015B Bonds, such notice will state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2015B Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2015B Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption

Notice of redemption having been duly given as described above under the caption “—Notice of Redemption,” and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 2015B Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2015B Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2015B Bonds so called for redemption will cease to accrue, said 2015B Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2015B Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee will, upon surrender for payment of any of the 2015B Bonds to be redeemed on their Redemption Dates, pay such 2015B Bonds at the Redemption Price.

All 2015B Bonds redeemed pursuant to the provisions of the Indenture will be canceled upon surrender thereof.

SECURITY FOR THE 2015B BONDS

General

Each 2015B Bond is a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Installment Payments to be made by the District under the Installment Purchase Agreement, and from certain other funds and accounts established pursuant to the Indenture. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE 2015B BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2015B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The Authority has assigned substantially all of its right, title and interest in the Installment Purchase Agreement to the Trustee pursuant to the Indenture, for the benefit of the Owners of the 2015B Bonds, including its right to receive Installment Payments and its rights as may be necessary to enforce payment of the Installment Payments when due.

Installment Payments Payable From Net Revenues

All of the Authority Revenues and any other amounts (including proceeds of the sale of the 2015B Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund and the Acquisition Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2015B Bonds in accordance with their terms and the provisions of the Indenture, subject only to the provisions of the Indenture permitting the terms and conditions set forth therein. Such pledge constitutes a lien on and security interest in such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice hereof.

Authority Revenues consist primarily of Installment Payments received from the District under the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the Installment Payments are payable by the District from Net Revenues, which consist of the Net Water and Sewer Revenues less all net amounts payable by the District on the Parity Obligations, and from amounts held in certain funds and accounts described in the Indenture. Net Water and Sewer Revenues consist of Water and Sewer Revenues less Maintenance and Operation Costs (as such terms are defined in Appendix C). See Appendix A under the caption “THE DISTRICT—Debt Structure of the District” for a description of Parity Obligations payable on a senior basis to the Installment Payments.

All Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund have been irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement. The Net Revenues may not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge, together with the pledge created by all other Contracts and Bonds (as described in the following paragraph), constitutes a lien on Net Revenues, subject to the application of Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund as permitted in the Installment Purchase Agreement and other funds and accounts created thereunder for the payment of the Installment Payments and all other Contracts and Bonds in accordance with the terms thereof and of the Indenture.

The Installment Payments are payable from Net Revenues on a parity with Contracts and Bonds. Currently, the following Contracts and Bonds are outstanding: (a) the 2014A Bonds, which are currently outstanding in the aggregate principal amount of \$48,645,000; (b) the 2014B Bonds, which are currently outstanding in the aggregate principal amount of \$45,175,000; and (c) the 2014C Bonds, which are currently outstanding in the aggregate principal amount of \$54,765,000. In addition, regularly scheduled payments under two interest rate swap agreements constitute Contracts. See Appendix A under the captions “THE DISTRICT—Debt Structure of the District—Subordinate Obligations” and “THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements.”

THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NOTWITHSTANDING ANYTHING CONTAINED IN THE INSTALLMENT PURCHASE AGREEMENT, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OTHER THAN THE NET REVENUES AND

THE SUBORDINATE OBLIGATION PAYMENT FUND FOR THE PAYMENT OF AMOUNTS DUE THEREUNDER OR FOR THE PERFORMANCE OF ANY AGREEMENTS OR COVENANTS REQUIRED TO BE PERFORMED BY IT CONTAINED THEREIN. THE DISTRICT MAY, HOWEVER, 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.

Flow of Funds

Master Resolution. The Master Resolution provides for the allocation of Water and Sewer Revenues. Such provisions apply to the Parity Obligations (which are payable on a senior basis to the Installment Payments) and the Installment Payments, the 2014A Bonds, the 2014B Bonds and the 2014C Bonds, as well as to such other debts and obligations payable from Water and Sewer Revenues which are outstanding currently and which the District may issue or incur in the future, including without limitation water and sewer revenue bonds, installment sale agreements, leases and contracts of indebtedness.

The Master Resolution establishes seven special funds which are held by the District: (i) a Water and Sewer Revenue Fund; (ii) a Rate Stabilization Fund; (iii) an Operating Fund; (iv) an Installment Payment Fund; (v) an Operating Reserve Fund; (vi) a Subordinate Obligation Payment Fund; and (vii) a General Reserve Fund. As described below, the Installment Payments are payable from amounts deposited in the Subordinate Obligation Payment Fund.

Under the Master Resolution, all Current Water and Sewer Revenues (as such term is defined in Appendix C) are deposited initially in the Water and Sewer Revenue Fund. The Water and Sewer Revenue Fund also receives transfers from the Rate Stabilization Fund. In order to avoid fluctuations in its water and sewer rates, the District may transfer portions of its Current Water and Sewer Revenues from time to time to the Rate Stabilization Fund and from time to time transfer moneys from the Rate Stabilization Fund to the Water and Sewer Revenue Fund. It is expected that the amounts to be transferred into and out of the Rate Stabilization Fund will be budgeted by the District on an annual basis in order to provide sufficient Water and Sewer Revenues to meet its capital improvement funding objectives and its covenant obligations under the Master Resolution.

Amounts in the Water and Sewer Revenue Fund are utilized to fund the Rate Stabilization Fund, to the extent determined by the District. Remaining amounts are to be set aside and deposited or transferred from the Water and Sewer Revenue Fund by the District, as the case may be, at the following times and in the following order of priority:

(a) Operating Fund. On or before the last Business Day of each month, the District will deposit in the Operating Fund such amount as the District estimates is required, together with amounts then on deposit therein, to provide for the payment of Maintenance and Operation Costs estimated to be paid through the next month.

(b) Installment Payment Fund. On or before the last Business Day of each month, the District will deposit in the Installment Payment Fund a sum equal to the Monthly Accrued Debt Service on Parity Obligations for such month, plus a sum equal to all Reimbursement Payments (as such terms are defined in the Master Resolution) then due and payable, provided that no such deposit need be made if amounts on deposit in the Installment Payment Fund equal the amount of: (i) Payments due with respect to all Parity Obligations on the next succeeding Interest Payment Date (with respect to interest) and Principal Payment Date (with respect to principal) (as such terms are defined in the Master Resolution); (ii) Other Parity Obligations Payments due with respect to all Other Parity Obligations on the next succeeding Other Party Obligation Payment Date (as such terms are defined in the Master Resolution); and (iii) Reimbursement Payments then due and payable.

(c) Bond or Contract or Other Parity Reserve Funds. On or before the last Business Day of each month, the District will transfer to each trustee for deposit in the applicable reserve fund for Parity Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such reserve fund for Parity Obligations as and to the extent required by the applicable instrument by which such Parity Obligations were issued.

(d) Operating Reserve Fund. On or before the last Business Day of each month, the District will transfer to the Operating Reserve Fund an amount equal to 1/12th (or such greater fraction if the period is less than 12 months as may be appropriate) of the amount which is equal to the difference between the sum on deposit in said fund at the beginning of the then current Fiscal Year and not less than 1/4 of the Maintenance and Operation Costs as set forth in the District's then current annual budget; provided, that, if any such monthly allocation is less than the amount required above for such month, the amount of the next succeeding monthly transfer will be increased by the amount of such deficiency.

(e) Subordinate Obligation Payment Fund. On or before the last Business Day of each month, the District will deposit in the Subordinate Obligation Payment Fund (from which the Installment Payments that secure the 2015B Bonds are paid) a sum equal to the amount required to be deposited under the Indenture, the indentures pursuant to which the 2014A Bonds, the 2014B Bonds and the 2014C Bonds were issued, the interest rate swap agreements described in Appendix A under the caption "THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements" and each other instrument securing Subordinate Obligations issued on a parity with the Installment Payments in the future, if any. See the caption "—Installment Purchase Agreement."

(f) Subordinate Obligation Reserve Funds. On or before the last Business Day of each month, the District will transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or trust agreements or other instrument securing such Subordinate Obligation. No debt service reserve fund has been established in connection with the issuance of the 2015B Bonds. See the caption "—No Reserve Fund."

(g) General Reserve Fund. On the last Business Day of each month, the District will, after making each of the foregoing deposits and transfers, transfer all money remaining in the Water and Sewer Revenue Fund to the General Reserve Fund. The District may withdraw money in the General Reserve Fund for any lawful purpose of the District except to make transfers to the Rate Stabilization Fund.

Installment Purchase Agreement. In order to carry out and effectuate the pledge and lien of Net Revenues contained in the Installment Purchase Agreement, the District has agreed and covenanted that all Net Revenues will be received by the District in trust thereunder and will be deposited when and as received in a special fund designated as the "Subordinate Obligation Payment Fund," which fund has been continued and which fund the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Subordinate Obligation Payment Fund will be used and applied by the District as provided in the Master Resolution and the Installment Purchase Agreement.

All moneys in the Subordinate Obligation Payment Fund will be applied by the District at the following times for transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the Installment Purchase Agreement.

(a) Installment Payments. Not later than each Installment Payment Date, the District will, from the moneys in the Subordinate Obligation Payment Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The District will also, from the moneys in the

Subordinate Obligation Payment Fund, transfer to the applicable trustee or payee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(b) Reserve Funds. On or before each Installment Payment Date, the District will, from the remaining moneys in the Subordinate Obligation Payment Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit to the applicable trustee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore the reserve funds to an amount equal to the reserve fund requirement (if any) for such Bonds or Contracts. No debt service reserve fund has been established in connection with the issuance of the 2015B Bonds. See the caption “—No Reserve Fund.”

(c) Surplus. Moneys on deposit in the Subordinate Obligation Payment Fund on each Installment Payment Date not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

Indenture. There has been established with the Trustee the Revenue Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any Installment Payments remain unpaid. Except as directed in the Indenture, all Installment Payments and other Authority Revenues will be promptly deposited by the Trustee upon receipt thereof into the Revenue Fund; except that all moneys received by the Trustee and required by the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All Authority Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also create and maintain an Interest Account and a Principal Account within the Revenue Fund.

The Trustee will transfer from the Revenue Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Authority Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the third day preceding each date on which the interest on the 2015B Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2015B Bonds then Outstanding.

(b) Not later than the third day preceding each date on which the principal of the 2015B Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2015B Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date.

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2015B Bonds as it becomes due and payable (including accrued interest on any 2015B Bonds purchased prior to maturity pursuant to the Indenture).

All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2015B Bonds at maturity, mandatory sinking fund redemption or purchase; provided, however, that at any time prior to selection for redemption of any such 2015B Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 2015B Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is

payable from the Interest Account) as directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2015B Bonds.

There has been established with the Trustee, when needed, a special fund designated as the “Redemption Fund.” All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and accrued interest on the 2015B Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2015B Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 2015B Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2015B Bonds. See the caption “THE 2015B BONDS—Redemption.”

Rate Covenant

Master Resolution. Pursuant to the Master Resolution, Net Water and Sewer Revenues must equal at least 110% of the sum of: (i) all debt service on Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the Installment Payments that secure the 2015B Bonds); (ii) all deposits required to be made to the Operating Reserve Fund (as described under the caption “—Flow of Funds”); and (iii) all debt service on all Subordinate Obligations (including the Installment Payments, the 2014A Bonds, the 2014B Bonds and the 2014C Bonds).

Installment Purchase Agreement. To the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 115% of the Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

No Reserve Fund

Neither the Installment Purchase Agreement nor the Indenture establishes a debt service reserve fund for the 2015B Bonds.

No Acceleration Upon Event of Default

None of the Installment Purchase Agreement, the Indenture or the Master Resolution permit the Installment Payments or the 2015B Bonds to be accelerated upon an event of a default under the Installment Purchase Agreement or the Indenture, respectively. See Appendix C under the captions “INSTALLMENT PURCHASE AGREEMENT—EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY” and “INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF 2015B BOND OWNERS” for further information with respect to remedies available in the event of a default under the Installment Purchase Agreement or the Indenture, respectively.

Additional Obligations

Issuance of Additional Parity Obligations under Master Resolution. Pursuant to the Master Resolution, the District may at any time incur or issue additional Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the Installment Payments that secure the 2015B Bonds), provided that:

(a) The District certifies that the District is not then in default under any Trust Agreement (as such term is defined in the Master Resolution) or with respect to any Parity Obligations; and

(b) Such Parity Obligation does not allow the declaration of payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there are no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations (as such term is defined in the Master Resolution) may be incurred provided that one of the following tests, as evidenced by a certificate of the District (together with supporting calculations prepared by the District), is satisfied:

(i) The Debt Service Coverage Ratio (as such term defined in the Master Resolution) for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account: (i) all Long-Term Parity Obligations then Outstanding; (ii) the Long-Term Parity Obligations then proposed to be incurred; and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10 times; or

(ii) (A) The Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant: (i) taking into account all Outstanding Long-Term Parity Obligations then Outstanding; (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred; (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion; and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15 times; and (B) taking into account the matters listed in clauses (i), (iii) and (iv) of part (A) above, plus the Long-Term Parity Obligations then proposed to be issued, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

Certain other conditions and tests must be satisfied with respect to Parity Obligations that are not Long-Term Parity Obligations. For a summary of such conditions and tests, see Appendix C under the caption "MASTER RESOLUTION—ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS."

The Master Resolution does not establish conditions to the issuance of additional Subordinate Obligations payable on a parity with the Installment Payments that secure the 2015B Bonds.

Issuance of Additional Subordinate Obligations under Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the District may at any time execute any Contract or issue any Bonds, as the case may be, payable on a parity with the Installment Payments that secure the 2015B Bonds, in accordance with the Indenture; provided that:

(a) The Net Revenues for any consecutive 12 calendar month period during the 18 calendar month period, or for the most recent audited Fiscal Year, preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant (as

such terms are defined in Appendix C) on such calculation on file with the District, produce a sum equal to at least 115% of the Debt Service for such 12 calendar month period or Fiscal Year; and

(b) The Net Revenues for any consecutive 12 calendar month period during the 18 calendar month period, or for the most recent audited Fiscal Year, preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such 12 calendar month period or Fiscal Year to increases or decreases in rates and charges for the Water and Sewer Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, produce a sum equal to at least 115% of the Debt Service for such 12 calendar month period or Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming that such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such 12 calendar month period or Fiscal Year.

(c) Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts without complying with clauses (a) or (b) above if, after giving effect to the application of the proceeds thereof, total Debt Service (as such term is defined in the Indenture) will not be increased more than 5% in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

EASTERN MUNICIPAL WATER DISTRICT

See Appendix A for financial, statistical and operating information regarding the District and its service area and Appendix B for the District's audited financial statements for the Fiscal Year ended June 30, 2014.

FINANCIAL STATEMENTS

The general purpose financial statements of the District included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent certified public accountants (the "Auditor"). The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. The Auditor has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated October 31, 2014. The District represents that there has been no material change to its financial condition since June 30, 2014 that is not otherwise disclosed in this Official Statement.

THE AUTHORITY

The Authority is a public body duly organized and existing under the Joint Exercise of Powers Agreement, dated as of April 1, 2015 (the "JPA Agreement"), by and between the District and Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, a community facilities district duly organized and validly existing pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.* of the California Government Code (the "CFD"), and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting in the financing and refinancing of capital improvement projects of the District and to finance working capital for the District by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the District nor the CFD is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the members of the Board of Directors of the District.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the issuance of the 2015B Bonds will be passed upon for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel to the District (“Bond Counsel”), for the District and the Authority by Lemieux & O’Neill, Westlake Village, California, General Counsel to the District and the Authority, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the 2015B Bonds for the accuracy, completeness or fairness of this Official Statement. Bond Counsel represents the Underwriters from time to time on matters unrelated to the 2015B Bonds.

The fees paid to Bond Counsel, Underwriters’ counsel and the Financial Advisor are contingent upon the issuance of the 2015B Bonds.

LITIGATION

District

General. At the time of delivery of and payment for the 2015B Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2015B Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the District’s ability to pay the Installment Payments, or in any way contesting or affecting the validity or enforceability of the 2015B Bonds, the Indenture, the Installment Purchase Agreement, or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the 2015B Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

SDCWA Litigation. On July 11, 2010, the San Diego County Water Authority (“SDCWA”) filed a lawsuit captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BX 126888) against The Metropolitan Water District of Southern California (“MWD”). The lawsuit challenges MWD’s adoption of water rates and charges on April 13, 2010, which were effective January 1, 2011 and January 1, 2012. On June 8, 2012, SDCWA filed another lawsuit, captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BS 137830) against MWD. The lawsuit challenges MWD’s rates and charges effective January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a third lawsuit, captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BC547139) which challenges the validity of MWD’s rates and charges effective January 1, 2015 and January 1, 2016. The allegations in the 2014 complaint are substantially similar to the allegations in the 2010 and 2012 cases. The 2014 complaint was filed in the Los Angeles Superior Court, and was transferred to the San Francisco Superior Court, where the 2010 and 2012 cases are being litigated by stipulation of the parties. As an MWD rate payer, the District is named as a real party in interest, and is participating in all three lawsuits. The third lawsuit has been stayed pending the outcome of the first two cases.

A hearing regarding the validity of MWD’s rates under the 2010 and 2012 complaints commenced in December 2013 in the San Francisco Superior Court before Judge Curtis Karnow. SDCWA alleges that MWD’s water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleges that such costs should be reclassified and reallocated so that MWD’s remaining members, including the District, bear a larger share of the financial burden. On April 24, 2014 the court issued a final

statement of decision, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements (transportation and water stewardship fees) in MWD's water rates. The court cannot lawfully order MWD to adopt a particular rate structure. The court has not yet ordered rates to be revised, but this is a potential outcome.

The two remaining civil claims were tried on March 30, April 1-2 and April 27-29, 2015. Closing arguments were heard on June 5, 2015, at which time the court took motions to strike and exclude evidence under submission. The District was not a defendant on the remaining claims, which are: (a) a claim for declaratory relief based on MWD's alleged miscalculation of SDCWA's preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court can award damages at this stage. SDCWA asked the court to award the amount that SDCWA claims is in dispute. MWD contended that SDCWA did not prove a breach, and that the court did not have jurisdiction to calculate a damage award, because such an exercise would necessarily involve rate-setting, by ascertaining a permissible rate and comparing this rate to the invalidated MWD rate. Alternatively, MWD challenged SDCWA's analysis and calculation of damages. A proposed statement of decision is expected to be issued in or about July 2015. The parties to the case may object to the proposed statement of decision, and a final decision is expected by September 2015.

An appeal of the final decision is likely. In the event that the tentative decision is eventually upheld on appeal, the District's MWD water charges could increase. Because the District's policy is to pass MWD water rate increases through to imported water customers, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay principal of and interest on the 2015B Bonds.

Authority

At the time of delivery of and payment for the 2015B Bonds, the Authority will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2015B Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the Authority's ability to pay the 2015B Bonds, or in any way contesting or affecting the validity or enforceability of the 2015B Bonds, the Indenture, the Installment Purchase Agreement, or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the 2015B Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015B Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2015B Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a 2015B Bond (the first price at which a substantial amount of the 2015B Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2015B Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2015B Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2015B Bond Owner will increase the 2015B Bond Owner's basis in the 2015B Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2015B Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a 2015B Bond Owner's original basis for determining loss on sale or exchange in the applicable 2015B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2015B Bond Owner's basis in the applicable 2015B Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2015B Bond Owner realizing a taxable gain when a 2015B Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015B Bond to the Owner. Purchasers of the 2015B Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2015B Bonds is based upon certain representations of fact and certifications made by the Authority and the District and is subject to the condition that the Authority and the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2015B Bonds to assure that interest (and original issue discount) on the 2015B Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015B Bonds. The Authority and the District have covenanted to comply with all such requirements, as applicable.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015B Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015B Bonds might be affected as a result of such an audit of the 2015B Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015B Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2015B Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2015B BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2015B BONDS OR THE MARKET VALUE OF THE 2015B BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2015B BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015B BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2015B BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015B BONDS, ALL POTENTIAL PURCHASERS

SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015B BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the 2015B Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the 2015B Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2015B Bonds for federal income tax purposes with respect to any 2015B Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2015B Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of the 2015B Bonds and the accrual or receipt of interest (and original issue discount) on the 2015B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2015B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2015B Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the 2015B Bonds to provide certain financial information and operating data relating to the District by 210 days following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2015, and to provide notices (each, a "Material Event Notice") of the occurrence of certain enumerated events. The Annual Report and any Material Event Notice will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, which can be found at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and any Material Event Notice is set forth in Appendix F. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the "Rule").

The District believes that it is currently in material compliance with all of its continuing disclosure undertakings. However, previously:

(1) The Annual Reports for Fiscal Years 2013 and 2010 for the District's Parity Obligations were filed between 2 and 4 days after the dates required for such filings, but in each case on or prior to December 31 of the applicable calendar year.

(2) The Annual Reports for Fiscal Year 2012 for the District's Parity Obligations and for Fiscal Year 2013 for the Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2005A and Series 2009A (which are general obligations of the District) were filed after the dates required for such filings, in each case after December 31 of the applicable calendar year.

(3) Of the approximately 49 outstanding debt issuances of community facilities districts created by the District (the "CFD Bonds"), one report for Fiscal Year 2013 and one report for Fiscal Year 2012 were filed after the dates required for such filings. Although the District is not the "obligated person" for purposes

of the Rule with respect to the CFD Bonds, District staff is responsible for preparing the annual reports for the CFD Bonds.

(4) In the last five Fiscal Years, the District did not timely file all significant event notices of changes in the ratings of certain Parity Obligations resulting from changes in ratings to the bond insurers which insured such obligations, changes in the short-term ratings of providers of liquidity facilities for certain Parity Obligations and upgrades in the underlying ratings for certain Parity Obligations.

(5) For Fiscal Years 2010 and 2011, certain of the District's annual reports contained hyperlinks to the District's audited financial statements. The District has since filed the audited financial statements directly with EMMA.

On April 30, 2014, the District's Board adopted continuing disclosure policies and procedures and District staff have undergone training to ensure compliance with continuing disclosure undertakings in the future.

RATINGS

The Authority expects that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch") will assign the 2015B Bonds the ratings of "AA-", "Aa3" and "AA", respectively. There is no assurance that any credit rating given to the 2015B Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P, Moody's or Fitch if, in the judgment of S&P, Moody's or Fitch, respectively, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2015B Bonds. Such ratings reflect only the views of S&P, Moody's and Fitch, respectively, and an explanation of the significance of such ratings may be obtained from S&P, Moody's and Fitch, respectively. Generally, rating agencies base their ratings on information and materials furnished to them and on investigations, studies and assumptions by the rating agencies.

FINANCIAL ADVISOR

The District has retained Public Financial Management Inc., Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2015B 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.

The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The 2015B Bonds are being purchased pursuant to a Contract of Purchase, dated the date hereof (the "Purchase Contract"), by and among the Authority, the District and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of itself, Citigroup Global Markets Inc. ("Citigroup") and Stifel, Nicolaus & Company, Incorporated (collectively, the "Underwriters"), at a purchase price of \$80,258,662.29 (representing the par amount of the 2015B Bonds, less an Underwriters' discount of \$177,512.51, plus a net original premium of \$6,006,174.80). The Purchase Contract provides that the Underwriters will purchase all of the 2015B Bonds if any are purchased.

The Underwriters may offer and sell the 2015B Bonds to certain dealers (including dealers depositing the 2015B Bonds into investment trusts) and others at prices lower than the public offering prices stated on the

inside front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

Citigroup, one of the Underwriters of the 2015B Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2015B Bonds.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the District, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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APPENDIX A

EASTERN MUNICIPAL WATER DISTRICT

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THE DISTRICT

Organization, Purpose and Powers

Eastern Municipal Water District (the “District”) was organized under the Municipal Water District Law, Division 20 of the Water Code of the State of California, as amended (the “Law”), on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. The District’s service area is primarily located in the westerly third of Riverside County. Prior to the District’s formation, the local water supply largely consisted of groundwater wells. Presently, the District imports approximately 52% of its water supply (including approximately 76% of its potable water supply) from The Metropolitan Water District of Southern California (“MWD”) and derives approximately 48% of its water supply (including approximately 24% of its potable water supply) from local sources, including groundwater, desalinated water and recycled water. In general, the District annually supplies approximately 50% of the water consumed within the District’s service area, and the remainder is provided by private groundwater wells and other agencies.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for non-domestic purposes).

The District’s water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District’s service area, as well as wholesale customers (e.g., municipalities and local water districts) located within its service area.

The District is authorized to acquire, control, distribute, store, treat, reclaim, recapture and salvage any water (including sewage) for the beneficial use of the District, its inhabitants and the owners of rights to water in the District.

The Law also authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year of the District ending June 30 (each, a “Fiscal Year”) a water standby or availability charge and a sewage and wastewater service standby or availability charge on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District. The District may also issue bonds, borrow money and incur indebtedness. For a discussion of current and potential limitations on the District’s ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218, see the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.”

As authorized under the Law, the District has established 61 separate special improvement districts within its service area for the purpose of providing certain water and wastewater improvements for each such special improvement district and charging the costs of such improvements to each such special improvement district through *ad valorem* taxes levied and collected on property located within the boundaries of each such special improvement district. Such *ad valorem* taxes levied and collected with respect to special improvement districts do not constitute revenues of the District’s Water and Sewer System, and general obligation bonds issued by the District on behalf of each special improvement district constitute obligations of such special improvement district, not obligations of the District. In addition, the District provides Water and Sewer Service to retail customers located within these special improvement districts and the charges for such service constitute revenues of the District’s Water and Sewer System.

The District does not presently levy any taxes other than *ad valorem* taxes in respect of special improvement districts for repayment of general obligation bond indebtedness. However, as provided under California law, the District does receive a share of the county-wide 1% tax levied and collected by Riverside

County. The proceeds of such share constitute Water and Sewer Revenues and are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.”

The District is a member agency of MWD and is currently entitled to have one District representative on MWD’s Board of Directors (the “MWD Board”).

Board of Directors and Management

Board of Directors. The District is governed by a five-member Board of Directors (the “Board”). Directors are elected by geographic divisions for staggered four year terms. The Board regularly meets on the first and third Wednesday of each month. The Board has five standing committees: Administrative, Executive, Planning, Deferred Compensation Administrative Oversight and Operations/Engineering. These committees review District matters and recommend action to be taken by the Board.

Randy A. Record – Board President. A fifth-generation San Jacinto native, Randy A. Record has been active in the farming community for over three decades. A 1976 graduate of California State Polytechnic University, San Luis Obispo, President Record holds a Bachelor of Science degree in agricultural management, continuing his education in irrigation management. President Record was first elected to the Board effective January 8, 2001, and previously served a two-year term as Board President. Beginning in January 2003, he has represented the District on the MWD Board and is its current Chair as well as a member of its Executive Committee. He is also a member of MWD’s Water Planning and Stewardship Committee, Engineering and Operations Committee, Legal and Claims Committee, Communications and Legislation Committee, Special Committee on Bay-Delta, Agriculture and Business Outreach Committee, and the Real Property and Asset Management Committee. President Record is the immediate past President of the Association of California Water Agencies (“ACWA”). His Board term expires in January 2017.

David J. Slawson – Board Vice President. A Board member since January 1995, David J. Slawson served as Board President from January 2007 to January 2009. Both a licensed Professional Land Surveyor and licensed California attorney, he is a former member of the California Department of Consumer Affairs Board of Registration for Professional Engineers and Land Surveyors. He is president of Winchester Associates, a civil engineering and land surveying firm. A longtime resident of Moreno Valley, Mr. Slawson is also a former Moreno Valley city planning commissioner. Mr. Slawson serves on the Board’s Operations/Engineering Committee. He also serves as the liaison with Elsinore Valley Municipal Water District and is the alternate commissioner on the Santa Ana Watershed Project Authority (“SAWPA”). His Board term expires in January 2015.

Joseph J. Kuebler, CPA – Director and Board Treasurer. The Board treasurer since May 1996, and a Board member since April 2006, Joseph J. Kuebler is a member of PKC Kuebler, one of southwest Riverside County’s leading CPA practices serving a large client base of companies in the real estate development, engineering, medical, retail and agricultural industries. Mr. Kuebler was appointed Chair of Region 9 of ACWA in December 2005 and served on its statewide board of directors for two years. He has represented the District at numerous ACWA conferences as well as other civic and industry functions. His current committee responsibilities include the Executive, Administrative and Deferred Compensation Administrative Oversight Committees, and he serves as the liaison with Rancho California Water District. Unchallenged in the 2014 election, his Board term will expire in January 2019.

Philip E. Paule – Director. A Board member since 2007, Philip E. Paule was re-elected to another four-year term in 2010. He is a graduate of California State University, Fullerton and has worked at various levels of government for the past two decades. Mr. Paule serves on the Board’s Executive, Administrative and Deferred Compensation Administrative Oversight Committees, is the District’s representative to the Hemet/San Jacinto Watermaster, and serves as a liaison to Western Municipal Water

District and the Soboba Tribal Committee. Mr. Paule is on the Executive Committee of CalDesal. Unchallenged in the 2014 election, his Board term will expire in January 2019.

Ronald W. Sullivan – Director. A Board member since January 2003, Ronald W. Sullivan has a wide variety of experience with city and county organizations, including as chair of the Riverside County Planning Commission, City of Hemet Planning Commission and Riverside County Aviation Commission. Mr. Sullivan previously served on the staff of former State Senator Marian Bergeson. A licensed general contractor, he is experienced in real estate planning, design, development, and construction. He is an owner in Sullivan & Sullivan R.E. Group Inc. Mr. Sullivan serves on the Planning and Operations/Engineering Committees. He is also the past chair of SAWPA and continues as a commissioner from the District. He represents the District on the ACWA’s Local Government Committee, and the Western Riverside Water and Wastewater Financing Authority. His Board term expires in January 2017.

Management.

Paul D. Jones II, P.E. – General Manager. Paul D. Jones II, General Manager, was appointed general manager in July 2011 and heads a staff of approximately 611 employees. Previously, Mr. Jones was the General Manager of the Irvine Ranch Water District (“IRWD”) from 1999 to 2011. Under his leadership, IRWD became known for diverse and highly reliable water supply and storage portfolios. While at IRWD, he was instrumental in the development of creative urban runoff treatment programs and natural resource management at the San Joaquin Marsh and Wildlife Sanctuary. Like the District, IRWD operates extensive sewer and recycled water systems. Prior to his service at IRWD, Mr. Jones was the General Manager of both West Basin Municipal Water District and Central Basin Municipal Water District in Carson, California. There he was responsible for the operation of two wholesale water districts governed by separate elected boards. Mr. Jones previously worked for a private environmental engineering firm and served as senior engineer and assistant to the general manager of Municipal Water District of Orange County. Mr. Jones also served as director of regional infrastructure planning and manager of infrastructure project engineering with The Irvine Company. Mr. Jones received his Bachelor of Science degree in civil engineering with an emphasis in water resources from California State Polytechnic University, Pomona and is a registered professional engineer in the State of California.

Debby Cherney – Deputy General Manager. Debby Cherney, Deputy General Manager, joined the District in August 2012. Her oversight responsibility includes all accounting functions, budget and rate development, debt and investments and strategic financial planning, as well as information systems, customer service, human resources, risk management, meter services, purchasing and contract management. Previously, Ms. Cherney was the Executive Director of Finance and Administrative Services at IRWD for seven years. Prior to her service at IRWD, Ms. Cherney spent 15 years in management consulting, working with public agencies and private companies. She is a Certified Public Accountant, licensed in the State of California. She has a Bachelor’s degree from Claremont McKenna College (*Cum Laude*) and a Masters of Business Administration degree (*Cum Laude*) from the University of California, Irvine.

Nick Kanetis – Deputy General Manager. Nick Kanetis, Deputy General Manager, joined the District in March 2014. His oversight responsibility includes operations as well as planning, engineering and construction. Previously, Mr. Kanetis was the Director of Engineering of Orange County Sanitation District (“OCSD”), where he was responsible for the planning, design and construction of OCSD’s approximately \$2 billion capital improvement program. Prior to his service at OCSD, Mr. Kanetis filled executive management positions in private engineering consulting with a focus on the design, planning and construction management of municipal water and wastewater infrastructure projects. Mr. Kanetis has over thirty years of experience in the public and private sectors managing operations and the delivery of water and wastewater services. Mr. Kanetis is a registered professional engineer in the State of California and a licensed general building contractor. Mr. Kanetis received his Bachelor of Science degree in civil engineering degree with honors from The City University in London, England.

Jeff Wall – Assistant General Manager, Operations and Maintenance. Jeff Wall, Assistant General Manager, Operations and Maintenance, began his career with the District in 1988. Mr. Wall has over 25 years of experience in engineering and management and is responsible for water system operations, water reclamation, and maintenance functions of the District. His executive management experience includes five years as the Assistant General Manager/Chief Engineer for Lake Hemet Municipal Water District and three years as the Director of Water Reclamation at the District. Mr. Wall received a Bachelor of Science degree in Electrical Engineering Technology from LeTourneau University and a Masters of Public Administration degree from California State University, San Bernardino. He is a registered professional engineer in the State of California.

Charles J. Bachmann – Assistant General Manager, Planning, Engineering, and Construction. Charles J. Bachmann, Assistant General Manager, Planning, Engineering, and Construction, joined the District in 1992. He has over 30 years' experience in engineering and management and is a registered professional engineer in the State of California. Mr. Bachmann's area of expertise is water and wastewater engineering. Prior to joining the District, he was associated with several engineering consulting firms in southern California and New York. Mr. Bachmann received his Bachelor of Science degree (*Cum Laude*) from the State University of New York's College of Environmental Science and Forestry. He holds a Masters of Science degree in civil engineering, sanitary emphasis, from the University of Southern California.

Charles Turner – Director of Finance. Charles Turner, Director of Finance, joined the District in 2008. He manages the District's financial programs, including financial planning, budget, treasury, debt management, rates and charges, and accounting. Prior to joining the District, Mr. Turner was the Director of Financial Management for the Port of Los Angeles, where he was responsible for financial planning and forecasts, financial analysis, lease negotiations, and credit/collections. Prior to joining the Port of Los Angeles, he served as a financial advisor to municipal agencies and special districts. Mr. Turner received a Bachelor's degree in Finance from California State University, Long Beach.

Employee Relations

As of February 23, 2015, the District had 611 employees, of which 16 were in the Executive branch, 170 were in the Administrative Services branch, 283 were in the Operations and Maintenance branch and 142 were in the Engineering, Planning & Construction branch. The District's single bargaining unit, which includes 470 employees, is represented by the International Brotherhood of Electrical Workers Local 1436. The District's current memorandum of understanding (the "MOU") with the bargaining unit was approved in October 2013 and expires on July 23, 2016. Among the major agreements reached in the MOU, the District negotiated the implementation of a new lower tier of retiree medical benefits for future employees, negotiated additional employee and retiree contributions to monthly medical premiums beginning in 2014 and negotiated additional employee pension contributions. See the caption "HISTORICAL FINANCIAL OPERATIONS—Pension Plan." In exchange, the District provided a minimum cost-of-living adjustment to employee wages through the expiration of the current MOU. Labor and management enjoy a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The District has never experienced a strike, slowdown or work stoppage.

Insurance Programs

Self-Insurance General Liability. Since June 30, 1986, the District has maintained a self-insurance program in connection with all its general liability risks, including non-vehicular exposure loss due to premises, operations, personal injury and product liability.

Under this program, the District is responsible for all general liability claims and for developing and maintaining a self-insurance reserve fund of \$1,000,000. This insurance expense is proportionately allocated among the operating funds of the District in an amount adequate to maintain this level of reserve. The District

requires all contractors, sub-contractors, and vendors to maintain a minimum of \$1,000,000 general liability insurance for operations pertaining to District business, together with additional insured endorsements.

The Board established its self-insurance program for public liability with the assistance of an insurance consultant. An actuarial reserve review for the District was prepared by this consultant, concluding that such program was adequate for its purposes.

Excess General Liability Insurance Coverage. Effective June 6, 2007, the Board approved excess general liability, public officials/management liability, and auto liability insurance coverage, with a \$10,000,000 coverage limit. This excess coverage is combined with the District's self-insured retention level and the auto primary coverage of \$1,000,000, subject to nominal deductibles.

Property Appraisal and Seismic Analysis. A property appraisal and seismic analysis (the "Report") was performed in February 2007 at the District's five wastewater reclamation facilities, main offices, warehouse and shops and water storage facilities. See the caption "—Seismic Considerations."

The Report was prepared in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. The Report provides replacement costs for structures and equipment at the above-described facilities in the event of a loss and summarizes values by location and by buildings with site maps for each facility. Construction data include types of construction materials, square footage, fire underwriter's classification, and insurable values.

Property Insurance Coverage. The District maintains blanket Special Form insurance coverage for its buildings and equipment, excluding earthquake. Flood insurance is also provided on a blanket basis with a limit of \$1,000,000. The District's insurance program is consistent, in the District's judgment, with the District's covenant as to insurance contained in the Master Resolution, which covenant provides in part that the District is not required to procure or maintain such insurance unless such insurance is commercially available at a reasonable cost. Contractors and/or the District are required to provide Course of Construction insurance coverage during the period of construction.

Debt Structure of the District

Parity Obligations. Pursuant to the Master Resolution, the District has issued revenue bonds and entered into certain outstanding installment sale agreements and loans with certain State of California agencies which are secured by a pledge of and lien on Net Water and Sewer Revenues and constitute "Parity Obligations" under the Master Resolution. **The Parity Obligations are payable from Net Water and Sewer Revenues on a senior basis to the installment payments (the "Installment Payments") payable under the Installment Purchase Agreement, dated as of June 1, 2015 (the "Installment Purchase Agreement"), by and between the District and the Eastern Municipal Water District Financing Authority (the "Authority"), which Installment Payments secure the Authority's Water and Wastewater Revenue Bonds, Series 2015B (the "2015B Bonds").**

The following summarizes the District's outstanding Parity Obligations:

Installment Sale Agreements/Certificates of Participation and Revenue Bonds. The District has entered into various installment sale agreements and, in turn, caused the execution and delivery of various related series of certificates of participation, all in order to fund the District's ongoing capital improvement plan. See the caption "THE CAPITAL IMPROVEMENT PLAN." Each such installment sale agreement has required the District to make installment payments from the District's Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution, and the District's obligation to make each such installment payment has been secured in accordance with the terms of the Master Resolution. The District's obligations to pay Installment Sale Payments (as defined in the Master Resolution) under such

installment sale agreements from the District's Net Water and Sewer Revenues are senior to the District's obligation to pay the Installment Payments.

The District's Refunding Water and Sewer Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and the Refunding Water and Sewer Revenue Bonds, Series 2013A (the "Series 2013A Bonds") are SIFMA-based index tender bonds that are subject to periodic scheduled mandatory tenders. Such instruments are subject to certain risks, including but not limited to the risk that the District may not have sufficient remarketing proceeds or funds on hand on any scheduled mandatory tender date to pay the purchase price of such obligations upon the mandatory tender thereof. The District has not currently provided for any liquidity facility to support the payment of the purchase price upon mandatory tender of the Series 2012A Bonds or the Series 2013A Bonds. In the event that the District does not have sufficient funds to pay the purchase price of the Series 2012A Bonds or the Series 2013A Bonds on such date from remarketing proceeds or other funds on hand, the District's ability to pay such purchase price is dependent on the District's ability: (i) to issue and sell refunding obligations to refund the Series 2012A Bonds or the Series 2013A Bonds, as applicable, prior to such date; or (ii) to provide for the conversion of the Series 2012A Bonds or the Series 2013A Bonds, as applicable, to another mode in accordance with the indentures pursuant to which such obligations were issued on or prior to such date and to receive sufficient remarketing proceeds upon such conversion to provide for payment of the purchase price of the Series 2012A Bonds or Series 2013A Bonds, as applicable, upon the mandatory tender thereof.

A variety of events could prevent access to the municipal securities market, prohibit the District from issuing such refunding obligations or remarketing the Series 2012A Bonds or the Series 2013A Bonds, as applicable, or make the issuance of refunding obligations or the remarketing of the Series 2012A Bonds or the Series 2013A Bonds prohibitively expensive. No assurance can be given that the District will be able to effect such a refinancing or remarketing on sufficiently favorable terms. Failure of the District to provide sufficient funds to pay the purchase price upon a mandatory tender constitutes an event of default under the indentures pursuant to which the Series 2012A Bonds and the Series 2013A Bonds were issued.

The following table sets forth the District's certificates of participation and revenue bonds payable from Installment Sale Payments that are Parity Obligations under the Master Resolution outstanding as of December 31, 2014.

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TABLE 1
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Parity Obligations

| <i>Name of Issue</i> | <i>Original Amount Issued</i> | <i>Principal Outstanding As of December 31, 2014</i> |
|---|-----------------------------------|--|
| Certificates of Participation, Series 2006A | \$106,320,000 | \$ 94,430,000 |
| Refunding Certificates of Participation, Series 2007A | 20,710,000 | 20,225,000 |
| Refunding Certificates of Participation, Series 2008C ⁽¹⁾⁽²⁾ | 54,400,000 | 47,545,000 |
| Certificates of Participation, Series 2008G ⁽³⁾ | 50,000,000 | 50,000,000 |
| Certificates of Participation, Series 2008H | 140,035,000 | 140,035,000 |
| Refunding Water and Sewer Revenue Bonds, Series 2011A | 56,255,000 | 34,165,000 |
| Refunding Water and Sewer Revenue Bonds, Series 2012A | 50,000,000 | 50,000,000 |
| Refunding Water and Sewer Revenue Bonds, Series 2013A | <u>54,575,000</u> | <u>54,575,000</u> |
| Total | <u>\$ 532,295,000</u> | <u>\$ 490,975,000</u> |

⁽¹⁾ The District maintains an Interest Rate Swap Agreement with Wells Fargo Bank, N.A. (“WFB”) that presently corresponds to the interest rates borne by these obligations. The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with payment of the Installment Payments and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a subordinate basis to payment of the Installment Payments. See the caption “—Interest Rate Swap Agreements—2008C Interest Rate Swap Agreement.”

⁽²⁾ Liquidity support provided by a Standby Certificate Purchase Agreement with U.S. Bank National Association expiring on December 11, 2017. Certain amounts payable thereunder constitute Parity Obligations which are payable from Net Water and Sewer Revenues on a senior basis to the Installment Payments.

⁽³⁾ Liquidity support provided by a Standby Certificate Purchase Agreement with Mizuho Bank, Ltd. expiring on June 26, 2015. As described in the Official Statement under the caption “INTRODUCTION,” the District expects to prepay these obligations from proceeds of the Eastern Municipal Water District Water and Wastewater Revenue Bonds, Series 2015A (the “2015A Bonds”) in or about late June 2015.

Source: Eastern Municipal Water District.

State Loans. The District has entered into seven different State Revolving Fund loan contracts (each, a “State Loan”) to fund certain costs related to design and construction of District infrastructure in accordance with the terms of each State Loan. Four of the State Loan contracts were entered into with the State of California Department of Water Resources (“DWR”) and three were entered into with the State Water Resources Control Board (the “SWRCB”). Under each State Loan, the District borrowed money in increments as the District incurred costs approved as part of the costs of the project financed from such State Loan. Repayment of the amounts borrowed is on a semi-annual basis and usually begins approximately one year following completion of the related project. The District’s obligations to make State Loan repayments constitute Parity Obligations under the Master Resolution. Payments made under the State Loans are payable from Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution and are secured by a pledge of and lien on Net Water and Sewer Revenues on a senior basis to the Installment Payments.

The following table sets forth the State Loans related to completed projects which the District is currently repaying:

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TABLE 2
EASTERN MUNICIPAL WATER DISTRICT
State Loan Obligations Relating to Completed Projects

| <i>Loan Description</i> | <i>Project</i> | <i>Term</i> | <i>Interest Rate</i> | <i>Total Debt Amount (Original)</i> | <i>Remaining Debt Balance (Outstanding)⁽¹⁾</i> | <i>Repayment End Date</i> |
|--|--|-------------|----------------------|-------------------------------------|---|---------------------------|
| 1. Safe Drinking Water State Revolving Fund Loan | Hemet Water Filtration Plant | 20 years | 0.00% | \$ 42,098,388 | \$ 25,119,787 | 7/1/2028 |
| 2. Safe Drinking Water State Revolving Fund Loan | Sun City Pipeline Replacement Projects | 20 years | 2.80 | 2,000,000 | 984,180 | 4/1/2023 |
| 3. Safe Drinking Water State Revolving Fund Loan | Sun City Pipeline Replacement Projects | 20 years | 2.80 | 3,150,000 | 1,553,160 | 4/1/2023 |
| 4. State Revolving Fund No. 08-845-550 (Moreno Valley RWRf - SCATT) | Moreno Valley RWRf - SCATT | 20 years | 1.00 | 38,362,890 | 34,800,815 | 7/5/2032 |
| 5. State Revolving Fund No. 09-809-550-1 (Moreno Valley RWRf - APAD) | Moreno Valley RWRf - APAD | 20 years | 0.42 | 43,546,128 | 41,797,463 | 3/16/2033 |
| 6. State Revolving Fund No. C-06-5312-110 (TVRWRf) | Temecula Valley RWRf | 20 years | 2.60 | <u>18,114,795</u> | <u>18,114,795</u> | 12/30/2034 |
| Total | | | | <u>\$147,272,201</u> | <u>\$122,370,200</u> | |

⁽¹⁾ As of December 31, 2014.
Source: Eastern Municipal Water District.

The District has entered into a State Loan in the approximate amount of \$145,000,000 to finance improvements to the San Jacinto Valley Regional Wastewater Recovery Facility (the “San Jacinto Valley RWRf”). The project is also funded in part from a \$4,900,000 grant from SAWPA. The project objectives are to modify existing facilities and construct new facilities at the San Jacinto Valley RWRf in order to increase reliable capacity from 11.0 million gallons per day (“mgd”) to 14.0 mgd. Construction has commenced and is expected to be completed in late 2015. A repayment schedule for the San Jacinto Valley RWRf State Loan has not yet been finalized but is expected to reflect semi-annual payments over a 20 year period commencing approximately one year after completion of the project.

The District has entered into a Clean Water State Revolving Fund Project Finance Agreement (the “Finance Agreement”) with the SWRCB in the approximate amount of \$5,000,000 relating to the Enchanted Heights Sewer System Project. Pursuant to the terms the Finance Agreement, the SWRCB has agreed to forgive the entire loan amount contingent upon the District’s compliance with the terms thereof. The District expects to comply with the terms of the Finance Agreement and does not anticipate having to repay the \$5,000,000. If the District becomes obligated to repay the Finance Agreement, such obligation would be payable as a Parity Obligation on a senior basis to the Installment Payments.

TABLE 3
EASTERN MUNICIPAL WATER DISTRICT
New State Loan Agreements

| <i>Loan Description</i> | <i>Project</i> | <i>Expected Term</i> | <i>Interest Rate</i> | <i>Total Debt Amount (Approved by State)</i> | <i>Reimbursable (Amounts Received)⁽¹⁾</i> | <i>Expected Term of Loan (Repayment)</i> |
|---|-------------------------|----------------------|----------------------|--|--|--|
| 1. State Revolving Fund No. C-06-5159-110 (SJVRWRf) | San Jacinto Valley RWRf | 20 years | 2.70% | \$145,000,000 | \$114,497,765 | 11/16/2016 – 11/16/2035 |

⁽¹⁾ As of December 31, 2014. Excludes the Finance Agreement described in the paragraph preceding Table 3, which the District expects to be forgiven in accordance with its terms.
Source: Eastern Municipal Water District.

Interest Rate Swap Agreements.

General. As of December 31, 2014, the District had outstanding the following interest rate swap agreements (collectively, the “Interest Rate Swap Agreements”) with the following counterparties (collectively, the “Swap Providers”) in the aggregate notional amount of \$100,445,000:

| <i>Related Bond Issue</i> | <i>Notional Amount</i> | <i>Swap Providers</i> | <i>District Pays</i> | <i>District Receives</i> | <i>Scheduled Maturity/Termination Date</i> |
|--|------------------------|--|----------------------|--------------------------|--|
| Refunding Water and Wastewater Revenue Bonds, Series 2014C (the “2014C Bonds”) | \$55,060,000 | Wells Fargo Bank, National Association | 3.10 % | 66% of 1 month LIBOR | 7/1/2030 |
| Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C (the “2008C Certificates”) | 45,385,000 | Wells Fargo Bank, National Association | 5.125 | SIFMA | 7/1/2020 |

Source: Eastern Municipal Water District.

In the event of early termination of an Interest Rate Swap Agreement, there can be no assurance that: (i) the District will receive any termination payment payable to the District by the applicable Swap Provider; (ii) the District will have sufficient amounts to pay any termination payment payable by it to the applicable Swap Provider; or (iii) the District will be able to obtain a replacement Interest Rate Swap Agreement with comparable terms.

There is no guarantee that the floating rate payable to the District pursuant to each of the Interest Rate Swap Agreements will match the variable interest rate on the associated obligations to which the respective Interest Rate Swap Agreement relates at all times or at any time. Under certain circumstances, the counterparty to an Interest Rate Swap Agreement may be obligated to make a payment to the District under its respective Interest Rate Swap Agreement that is less than the interest due on the associated obligations to which such Interest Rate Swap Agreement relates. In such event, the District would be obligated to pay such insufficiency from Net Water and Sewer Revenues.

Pursuant to the terms of the Interest Rate Swap Agreements, the District is required to post collateral in favor of the applicable counterparty to the extent that the District’s total exposure for termination payments to such counterparty exceeds the threshold specified in the applicable Interest Rate Swap Agreement. Conversely, the counterparties are required to release collateral to the District as market conditions become favorable to the District and may be required to post collateral for the benefit of the District to the extent that such counterparty’s total exposure for termination payments to the District exceeds the threshold specified in the applicable Interest Rate Swap Agreement. As of December 31, 2014, the District has never been required to post collateral under either Interest Rate Swap Agreement. However, there can be no assurance that the District will not be required to post collateral in the future. Collateral deposited by the District would be held by the applicable counterparty or an agent therefor and a bankruptcy of any counterparty holding collateral posted by the District could adversely affect the return of the collateral to the District. Moreover, posting collateral limits the District’s liquidity. If collateral requirements increase significantly, the District’s liquidity may be adversely affected.

From time to time, the District may enter into additional interest rate swap agreements with security and payment provisions as determined by the District and subject to any conditions contained in the Installment Purchase Agreement. As of April 23, 2015, the mark-to-market value of the Interest Rate Swap Agreements was negative \$10,616,639 with respect to the Interest Rate Swap Agreement relating to the 2014C Bonds (the

“2014C Swap”) and negative \$5,733,345 with respect to the Interest Rate Swap Agreement relating to the 2008C Certificates (the “2008C Swap”).

2014C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2014C Swap, is payable from Net Revenues on a parity with the Installment Payments. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2014C Bonds or other subordinate obligations, the 2014C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Pursuant to the 2014C Swap, any such termination payment owed by the District would be payable from Net Revenues on basis immediately subordinate to the Installment Payments.

2008C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2008C Swap, is payable from Net Revenues on a parity with the Installment Payments. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2008C Certificates or other Parity Obligations, an event of taxability with respect to the 2008C Certificates or a conversion of the interest rate mode with respect to the 2008C Certificates, the 2008C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Any such termination payment owed by the District pursuant to the WFB Swap would be payable from Net Revenues on basis immediately subordinate to the Installment Payments.

The 2008C Certificates mature in 2046, which is later than the scheduled termination date of the 2008C Swap in 2020. Accordingly, the outstanding principal amount of the 2008C Certificates no longer matches the notional amount of the 2008C Swap and, as a result, a portion of the 2008C Certificates will be unhedged. Such unhedged portion will grow each year as the notional amount of the 2008C Swap declines until the 2020 termination of the 2008C Swap, after which time none of the 2008C Certificates will be hedged.

Subordinate Obligations. In addition to the Interest Rate Swap Agreements described above under the caption “—Interest Rate Swap Agreements,” the following table sets forth District obligations are payable from Net Revenues on a parity with the Installment Payments (“Subordinate Obligations”):

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**TABLE 3A
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate Obligations**

| <i>Name of Issue</i> | <i>Original Amount Issued</i> | <i>Principal Outstanding As of December 31, 2014</i> |
|---|-----------------------------------|--|
| Refunding Water and Wastewater Revenue Bonds, Series 2014A (the “2014A Bonds”) ⁽¹⁾ | \$ 48,645,000 | \$ 48,645,000 |
| Refunding Water and Wastewater Revenue Bonds, Series 2014B (the “2014B Bonds”) ⁽²⁾ | 45,175,000 | 45,175,000 |
| Refunding Water and Wastewater Revenue Bonds, Series 2014C (the “2014C Bonds”) ⁽³⁾ | <u>54,765,000</u> | <u>54,765,000</u> |
| Total | <u>\$ 148,585,000</u> | <u>\$ 148,585,000</u> |

⁽¹⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on June 11, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the Installment Payments.

⁽²⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on October 6, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the Installment Payments.

⁽³⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB on October 27, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the Installment Payments. The District maintains an Interest Rate Swap Agreement with WFB related to the 2014C Bonds. The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with the Installment Payments and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a basis immediately subordinate to the Installment Payments. See the caption “—Interest Rate Swap Agreements—2014C Interest Rate Swap Agreement.”

Source: Eastern Municipal Water District.

In or about late June 2015, the District expects to issue the 2015A Bonds in the approximate aggregate principal amount of \$50,000,000 to prepay the Eastern Municipal Water District Water and Sewer Revenue Variable Rate Certificates of Participation, Series 2008G (the “2008G Certificates”). The 2015A Bonds will be payable from Net Revenues on a parity with the Installment Payments. There can be no assurance that the 2015A Bonds will be issued as currently contemplated, or at all. See the caption “—Installment Sale Agreements/Certificates of Participation and Revenue Bonds.”

Summary of Debt Service. The following table summarizes projected debt service with respect to: (i) the District’s outstanding Parity Obligations, including the new State Loans relating to projects under construction or projects approved by the SWRCB, as described under the caption “—State Loans;” and (ii) the Installment Payments and other outstanding Subordinate Obligations.

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TABLE 4
EASTERN MUNICIPAL WATER DISTRICT
Debt Service Schedule

| <i>Period Ending June 30</i> | <i>Parity Obligations</i> | | | | | | | | <i>Total Debt Service⁽³⁾</i> | | |
|--------------------------------------|---|----------------------|----------------------|---------------------|----------------------------------|----------------------|---|--|---|-----------------------------|-----------------|
| | <i>Installment Sale Agreement and Revenue Bond Payments Relating to Outstanding Parity Obligations⁽¹⁾⁽²⁾</i> | | | | <i>State Loans⁽³⁾</i> | | <i>Total Parity Obligation Debt Service</i> | <i>Subordinate Obligation Debt Service⁽⁴⁾</i> | | <i>Installment Payments</i> | |
| | <i>Principal</i> | <i>Interest</i> | <i>Principal</i> | <i>Interest</i> | <i>Principal</i> | <i>Interest</i> | | | | <i>Principal</i> | <i>Interest</i> |
| 2015 | \$11,935,000 | \$20,479,863 | \$ 6,407,586 | \$ 1,724,692 | \$40,547,140 | \$4,939,613 | \$ - | \$ - | \$ 45,486,753 | | |
| 2016 | 12,355,000 | 19,915,588 | 6,495,438 | 1,636,839 | 40,402,865 | 5,864,553 | - | 1,900,621 | 48,168,040 | | |
| 2017 | 13,080,000 | 19,329,313 | 12,614,669 | 5,461,889 | 50,485,871 | 6,148,151 | - | 3,545,200 | 60,179,222 | | |
| 2018 | 9,065,000 | 18,842,313 | 12,868,800 | 5,207,759 | 45,983,871 | 6,407,973 | - | 3,545,200 | 55,937,044 | | |
| 2019 | 9,470,000 | 18,425,963 | 13,129,240 | 4,947,319 | 45,972,521 | 6,777,600 | - | 3,545,200 | 56,295,322 | | |
| 2020 | 9,890,000 | 17,968,288 | 13,395,967 | 4,680,592 | 45,934,846 | 7,026,931 | - | 3,545,200 | 56,506,978 | | |
| 2021 | 10,390,000 | 17,097,008 | 13,669,389 | 4,407,170 | 45,563,567 | 7,025,952 | - | 3,545,200 | 56,134,719 | | |
| 2022 | 11,945,000 | 16,169,075 | 13,949,327 | 4,127,232 | 46,190,634 | 7,029,521 | - | 3,545,200 | 56,765,355 | | |
| 2023 | 12,575,000 | 15,556,075 | 14,236,172 | 3,840,387 | 46,207,634 | 7,027,767 | - | 3,545,200 | 56,780,600 | | |
| 2024 | 13,210,000 | 14,911,450 | 14,190,181 | 3,548,865 | 45,860,496 | 7,030,560 | - | 3,545,200 | 56,436,257 | | |
| 2025 | 11,955,000 | 14,259,079 | 14,481,690 | 3,257,356 | 43,953,126 | 13,144,148 | - | 3,545,200 | 60,642,474 | | |
| 2026 | 12,655,000 | 13,707,475 | 14,780,329 | 2,958,717 | 44,101,521 | 13,145,339 | - | 3,545,200 | 60,792,060 | | |
| 2027 | 13,220,000 | 13,122,817 | 15,086,283 | 2,652,764 | 44,081,863 | 13,144,722 | - | 3,545,200 | 60,771,785 | | |
| 2028 | 13,815,000 | 12,507,169 | 15,399,739 | 2,339,308 | 44,061,215 | 13,147,001 | - | 3,545,200 | 60,753,416 | | |
| 2029 | 14,550,000 | 11,859,200 | 15,720,891 | 2,018,156 | 44,148,246 | 13,142,150 | - | 3,545,200 | 60,835,597 | | |
| 2030 | 15,110,000 | 11,181,544 | 13,933,058 | 1,701,069 | 41,925,671 | 13,144,743 | - | 3,545,200 | 58,615,614 | | |
| 2031 | 15,725,000 | 10,476,502 | 14,221,820 | 1,412,307 | 41,835,629 | 13,144,599 | - | 3,545,200 | 58,525,428 | | |
| 2032 | 24,880,000 | 9,529,346 | 14,517,784 | 1,116,344 | 50,043,473 | 5,033,700 | - | 3,545,200 | 58,622,373 | | |
| 2033 | 26,060,000 | 8,325,804 | 14,821,138 | 812,989 | 50,019,931 | 5,033,700 | - | 3,545,200 | 58,598,831 | | |
| 2034 | 27,300,000 | 7,074,956 | 12,979,551 | 502,050 | 47,856,558 | 5,033,700 | - | 3,545,200 | 56,435,458 | | |
| 2035 | 32,350,000 | 5,681,735 | 7,587,093 | 204,852 | 45,823,679 | 5,033,700 | - | 3,545,200 | 54,402,579 | | |
| 2036 | 33,830,000 | 4,128,763 | - | - | 37,958,763 | 5,033,700 | - | 3,545,200 | 46,537,662 | | |
| 2037 | 16,000,000 | 2,900,742 | - | - | 18,900,742 | 20,520,367 | - | 3,545,200 | 42,966,308 | | |
| 2038 | 16,710,000 | 2,317,963 | - | - | 19,027,963 | 20,647,588 | - | 3,545,200 | 43,220,750 | | |
| 2039 | 17,290,000 | 1,714,504 | - | - | 19,004,504 | 20,624,129 | - | 3,545,200 | 43,173,833 | | |
| 2040 | 5,230,000 | 1,496,279 | - | - | 6,726,279 | 13,296,798 | 7,840,000 | 3,349,200 | 31,212,277 | | |
| 2041 | 5,420,000 | 1,307,133 | - | - | 6,727,133 | 13,288,013 | 8,255,000 | 2,946,825 | 31,216,971 | | |
| 2042 | 5,615,000 | 1,111,177 | - | - | 6,726,177 | 13,285,810 | 8,635,000 | 2,567,750 | 31,214,738 | | |
| 2043 | 5,820,000 | 908,075 | - | - | 6,728,075 | 13,274,973 | 8,995,000 | 2,215,150 | 31,213,198 | | |
| 2044 | 6,030,000 | 697,638 | - | - | 6,727,638 | 13,269,844 | 9,415,000 | 1,799,875 | 31,212,356 | | |
| 2045 | 6,250,000 | 479,529 | - | - | 6,729,529 | 13,264,883 | 9,905,000 | 1,316,875 | 31,216,288 | | |
| 2046 | 6,475,000 | 253,560 | - | - | 6,728,560 | 13,254,727 | 10,425,000 | 808,625 | 31,216,913 | | |
| 2047 | 6,705,000 | 19,556 | - | - | 6,724,556 | 13,253,544 | 10,960,000 | 274,000 | 31,212,100 | | |
| TOTAL | \$452,910,000 | \$313,755,479 | \$274,486,143 | \$58,558,656 | \$1,099,710,278 | \$350,440,499 | \$74,430,000 | \$98,718,521 | \$1,623,299,298 | | |

(FOOTNOTES ON FOLLOWING PAGE)

- (1) Includes debt service on outstanding Parity Obligations listed on Table 1 under the caption “—Installment Sale Agreements/Certificates of Participation and Revenue Bonds,” except the 2008G Certificates, which are expected to be prepaid from proceeds of the 2015A Bonds in or about late June 2015, as described in the Official Statement under the caption “INTRODUCTION.”
- (2) Interest on the hedged portion of the variable rate 2008C Certificates is calculated at an assumed 2008C Swap rate of 5.125% per annum through July 1, 2020 and at an assumed rate of 3.50% thereafter. Interest on the unhedged portion of the 2008C Certificates, the Series 2012A Bonds and the Series 2013A Bonds is calculated at an assumed interest rate of 3.50% per annum. Also excludes debt service on the 2008G Certificates, which are expected to be prepaid from proceeds of the 2015A Bonds in or about late June 2015, as described in the Official Statement under the caption “INTRODUCTION.”
- (3) Reflects debt service on existing State Loans described in Table 2 under the caption “—State Loans” and debt service on new State Loans described in Table 3 under the caption “—State Loans.” Assumes drawdown of all authorized amounts, interest rates and expected terms of repayment for such new State Loans as set forth in Table 3.
- (4) Reflects debt service on 2014A Bonds and 2014B Bonds at a projected interest rate of 3.50% per annum and debt service on 2014C Bonds at a projected interest rate of 3.10% per annum. Reflects debt service on 2015A Bonds at a projected interest rate of 3.50% per annum. There can be no assurance that the 2015A Bonds will be issued as currently contemplated. Differs from the projected debt service set forth in Table 20 as a result of differing interest rate assumptions.

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Improvement District Bonds. The District has established 61 special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and six are combined water and sewer special improvement districts. Since 1952, the District has issued (on behalf of certain of these special improvement districts) 115 series of voter-authorized general obligation bonds, of which \$35,495,000 aggregate principal amount remained outstanding as of December 31, 2014. There remain \$547,650,000 aggregate principal amount of authorized but unissued general obligation bonds of the various special improvement districts within the District as of December 31, 2014. Such bonds are payable from *ad valorem* taxes levied by the District within the improvement districts for which such bonds were issued. Each series of such bonds constitutes an obligation of the respective special improvement district, not an obligation of the District, and the *ad valorem* taxes levied by the District on behalf of each such special improvement district are available only for the repayment of the bonds issued for such special improvement district. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources” for a discussion of certain limitations on the District’s ability to levy *ad valorem* taxes.

Other Subordinate Obligations. Certain amounts payable to banks providing credit or liquidity facilities in connection with certain District obligations constitute Subordinate Obligations which are payable from Net Revenues on a parity with the Installment Payments. No such amounts are currently outstanding.

District Investment Policy

Section 4 of the District’s Administrative Code includes the District’s investment policy (the “Investment Policy”), which is intended to promote its stated objectives of: (i) preserving principal by mitigating both credit risk and market risk; (ii) maintaining liquidity; and (iii) providing an acceptable rate of return after first considering safety of principal and liquidity.

Under the Investment Policy, investments will be generally consistent with the Prudent Investor Rule and are governed by certain provisions of the California Government Code. Within the limitations imposed by the California Government Code, the District further restricts the types of investments and their maturities. Generally, permitted investments include: United States Treasury, agency and instrumentality obligations; obligations of the State of California and its political subdivisions and local agencies; banker’s acceptances; commercial paper of domestic corporations; certificates of deposits; repurchase agreements; reverse repurchase agreements; the California Local Agency Investment Fund established by the State Treasurer; time deposits; medium-term notes of corporations; mutual funds; mortgage and consumer receivable pass-through securities; collateralized mortgage obligations; and mortgage and consumer receivable-backed certificates. Under the Investment Policy, prohibited investments include inverse floaters, indexed notes and interest-only strips that are derived from a pool of mortgages.

In addition, the Investment Policy provides certain guidelines for diversification of investments, liquidity goals, qualification of banks and securities dealers, and collateralization requirements for certain investments.

District Reserve Policy

The District’s Administrative Code also includes a reserve policy (the “Reserve Policy”) which includes, *inter alia*, a general fund reserve, construction reserves and a general damage reserve. General fund reserves are intended to provide working capital, allow for unanticipated changes to budgeted expenses and provide adequate cash flow during disasters or other emergencies. The general fund reserve target is 5% of total operating fund moneys. Construction reserves are intended to support the District’s capital improvement program and are segregated into restricted (developer-funded) and unrestricted funds. The general damage reserve is intended to provide moneys for unanticipated claims against the District. The general damage reserve target is the average amount of claims against the District for the prior three Fiscal Years less the current Fiscal Year’s accrued liability.

The Reserve Policy was adopted by the Board on January 22, 2003 and is subject to change at any time in the discretion of the Board. Neither the Indenture nor the Installment Purchase Agreement require the District or the Authority to maintain a debt service reserve fund for the 2015B Bonds. As of December 31, 2014, the District had approximately \$260,218,000 in available cash reserves, representing approximately 461 days cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$352,591,000 and is invested in various securities with an average yield of approximately 0.88% as of December 31, 2014. See Note 2 in Appendix B for further information with respect to District reserves.

Seismic Considerations

In October 1992, a District consultant conducted an earthquake loss and risk screening for the District's main facilities. For the purposes of such study, the main facilities included the District's headquarters, five reclamation facilities and 60 steel water storage tanks. The objective of the study was to provide the District with a preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at these facilities. Additionally, the study provided the basis for examining the adequacy of earthquake insurance coverage and recommending risk diversification and risk reduction strategies.

This study indicated that, although the District is bounded by two active fault zones, the San Jacinto fault zone to the northeast and the Elsinore fault zone to the southwest, most of the water reclamation facility structures are expected to experience relatively moderate damage in a 7.5 magnitude earthquake. The impact of lesser magnitude events is expected by the District to be temporary, localized and repairable. District facilities are designed to withstand earthquakes with minimal damage. The water reclamation facilities and main offices are located on relatively level terrain, with firm alluvium composition, minimizing the potential for earthquake losses. The District has taken steps to reduce the impacts of fault rupture on major pipelines and maintains an inventory of repair items and large diameter pipe for such contingencies. The fresh water storage tanks are built on cut slopes and largely consist of large-diameter steel tanks of modest height with low height-to-diameter ratios. Most of the large tanks have an articulated large diameter inlet/outlet piping connection with flexible expansion couplings and are equipped with seismic control valves which will preserve the storage capacity during a large seismic event. Earthquake loads are taken into consideration in the design of project structures such as pumping plants and interceptor facilities. To date, no District facilities have suffered any significant earthquake damage.

The District has an Emergency Response Plan which is updated annually to ensure compliance with federal, State of California, and local regulations. In October 1995, the District agreed to participate in the Riverside County Emergency Operational Area. This agreement is intended to organize the efforts of local agencies responding to a disaster and is part of the California Standardized Emergency Management System ("SEMS") developed by the California Emergency Management Agency and the National Incident Management System ("NIMS") developed by the Department of Homeland Security. Internally, the Emergency Response Plan calls for specific levels of response from District personnel who are to follow detailed steps for field facility inspection and assessment of damages. This information is then conveyed to the District's Emergency Operations Center for development of response plans. The District conducts training exercises or drills annually in accordance with SEMS and NIMS guidelines.

The District has prepared a Hazard Mitigation Plan, which in part gives an "Earthquake Hazard Profile." The profile includes a risk summary of probability and frequency, consequence and severity, vulnerability, and a hazard risk ranking score. The Hazard Mitigation Plan was updated in December 2011 and was financed through a Department of Homeland Security grant.

DISTRICT SERVICE AREA

The District's service area lies within the westerly third of Riverside County, encompassing approximately 352,000 acres (approximately 555 square miles). The first map below is a detailed map of the

District’s service area, while the second map below indicates the District’s location. When the District was annexed to MWD by the District’s voters in 1951, the District’s service area consisted of 86 square miles. Growth has resulted from 88 annexations and 8 detachments of service areas ranging in area from 1 to 72,000 acres. The District is divided into separate regional service areas for water service and for sewer service.

Riverside County’s population was approximately 2.28 million as of Fiscal Year 2014. Of this total population, the District serves approximately 34%. The District has estimated that the population of the District’s service area as of Fiscal Year 2014 was approximately 785,000.

The District provides wastewater service in certain areas in which retail water service is provided by other agencies. Historic population and water and wastewater connection information for the District is set forth below:

| <i>Fiscal Year</i> | <i>Population</i> | <i>Water Connections</i> ⁽¹⁾ | <i>Wastewater Connections</i> ⁽²⁾ |
|--------------------|-------------------|---|--|
| 1990 | 190,548 | 63,516 | 91,176 |
| 2000 | 450,000 | 83,283 | 139,248 |
| 2005 | 596,000 | 112,845 | 190,321 |
| 2010 | 699,000 | 133,810 | 226,846 |
| 2011 | 705,000 | 135,233 | 228,701 |
| 2012 | 768,000 | 136,478 | 230,356 |
| 2013 | 776,986 | 138,141 | 232,431 |
| 2014 | 785,000 | 140,028 ⁽³⁾ | 235,194 |

⁽¹⁾ Active water accounts as of June 30 of each Fiscal Year.

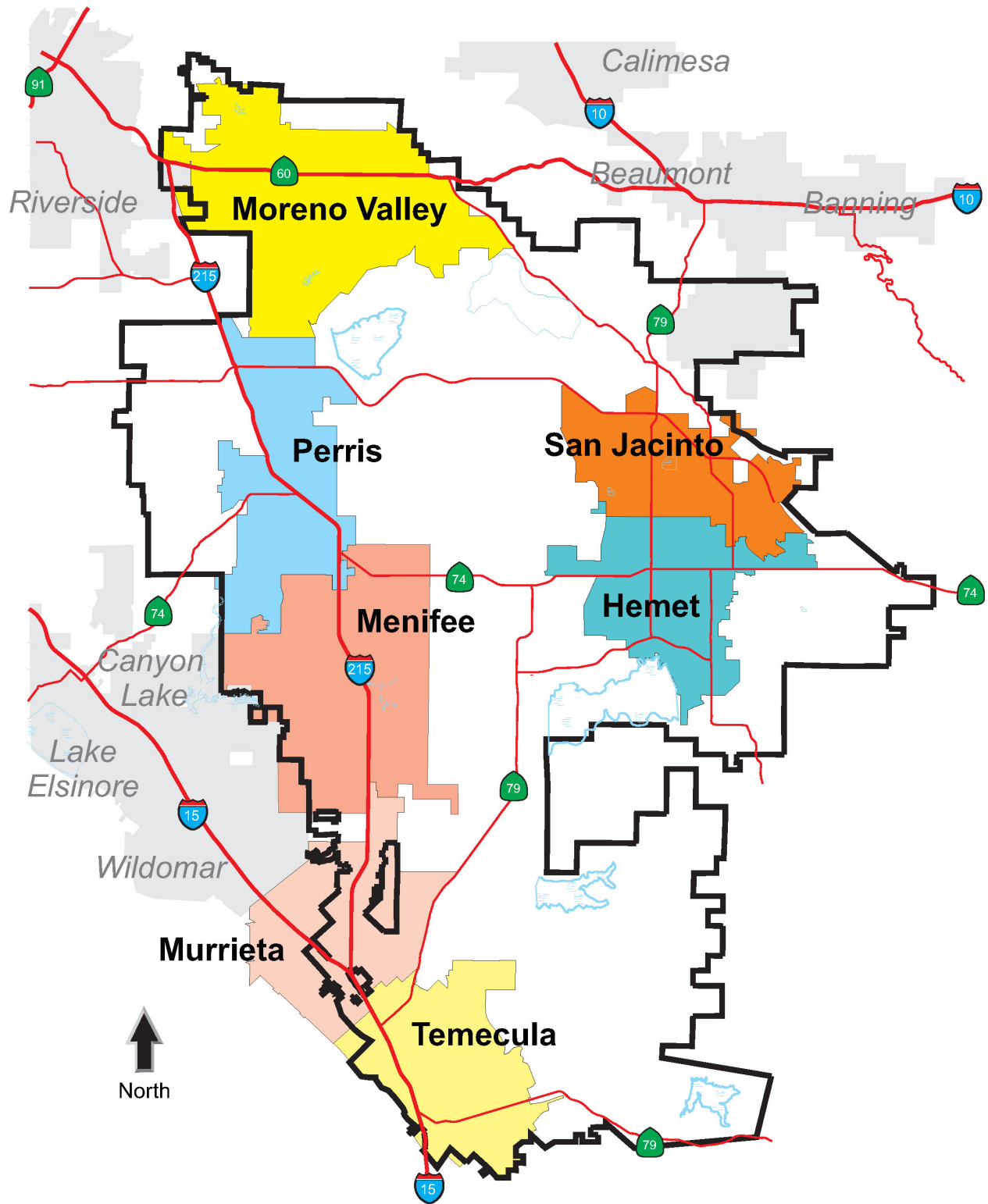
⁽²⁾ By equivalent dwelling unit. Reflects an average of active connections over the course of the listed Fiscal Years. Does not include recycled water connections. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—District Recycled Water Supply” for Fiscal Year 2014 recycled water connections.

⁽³⁾ Does not match figure shown under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Delivery” because such figure reflects an average of active connections over the course of Fiscal Year 2014.

Source: Eastern Municipal Water District.

Projected additional water and wastewater connections are set forth in Footnotes 13 and 12, respectively, to Table 20 under the caption “PROJECTED OPERATING RESULTS.”

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WATER RESOURCES, FACILITIES AND USAGE

General

The District receives its potable water supply from two sources: (i) local groundwater; and (ii) water imported by the District. The sole source of the District's imported water is MWD. The District also supplies recycled water, or highly treated sewage effluent, for non-domestic purposes.

Approximately 48% of the District's total water supply (including domestic and non-domestic) comes from local sources, including approximately 13% from potable groundwater, approximately 4% from groundwater that must undergo desalination treatment to be used as potable water and approximately 32% from recycled water. Groundwater sources are heavily dependent upon rainfall and other sources of recharge. The remaining 52% of the District's water supply (including approximately 76% of its potable water supply) comes through purchases from MWD, which in turn obtains its water supply from two primary sources: (i) the Colorado River via the Colorado River Aqueduct; and (ii) the State Water Project (the "State Project") via the Edmund G. Brown California Aqueduct. In Fiscal Year 2014, MWD supplied the District with approximately 76,898 acre feet of water. (Quantities of water are expressed in terms of acre feet. An acre foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to 325,900 gallons, or as much as two families consume in and around their homes in one year).

The District provides water service to retail customers located within the cities of Moreno Valley, Murrieta and Temecula and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Murrieta Hot Springs, Quail Valley, Romoland, Sun City, Valle Vista and Winchester. The District also supplies water on a wholesale basis to the cities of Hemet, San Jacinto and Perris, Lake Hemet Municipal Water District ("LHMWD"), Nuevo Mutual Water Company, Western Municipal Water District and DWR (collectively, the "Wholesale Customers").

Because the largest single component of the District's rates is the cost of water purchased from MWD, the District has, historically, adjusted its water rates to its customers as the cost of water purchased from MWD has changed. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues."

The Metropolitan Water District of Southern California

Composition of MWD. MWD was created in 1928 by vote of the electorates of a number of Southern California cities to provide a supplemental supply of water for domestic and municipal uses at wholesale to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts (including the District) and one county water authority. MWD is governed by a Board of Directors, currently numbering 37 members. Each member agency has at least one representative on the MWD Board. Representation and voting rights are based upon each member agency's assessed valuation. The District has one representative on the MWD Board. The total population of the MWD service area is approximately 19 million.

MWD Scheduling and Operations. MWD member agencies request water from MWD at various delivery points within MWD's service area and pay for such water at uniform rates established by the MWD Board for each class of service. For planning purposes, each MWD member agency advises MWD annually in December of its anticipated delivery requirements for each of the five following fiscal years. Charges for water delivered are billed monthly and payable by the end of the second month following delivery.

MWD Revenues. MWD revenues are primarily derived from water sales. Water rates are established by majority vote of the MWD Board and are not subject to regulation by the California Public Utilities Commission or by any other local, State of California or federal agency. Rates must be uniform for any class of service, and no water may be provided free of charge. Under the Metropolitan Water District Act, California

Statutes 1969, Chapter 209, as amended (the “MWD Act”), MWD is required, so far as practicable, to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability charge or assessment, will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by MWD and provide for the payment of the interest and principal of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds. The same water rate is charged for water provided from the Colorado River and the State Project.

MWD is also empowered to impose an annual water standby or availability service charge, to be allocated among MWD’s member agencies as determined by the MWD Board based on, among other factors: historical water deliveries by MWD; contracted or projected water service demands by member agencies; service connection capacity; acreage; property parcels; population; and assessed valuation. The charge may be collected from the member agencies or from individual parcels or may be converted into a benefit assessment. MWD imposes a water standby charge ranging from \$6.94 – \$12.23 for each acre or parcel less than an acre within MWD’s service area, subject to specific exempt categories. Standby charges are assessments under the terms of Proposition 218. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitation Taxes and Other Revenue Services.” A majority of the MWD Board can approve a higher rate. Different rates may be established for parcels situated within different member agencies.

The following table sets forth MWD’s rates for treated and untreated water for the period January 1, 2008 to January 1, 2016.

TABLE 5
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Summary of Water Rates in Dollars per Acre Foot

| <i>Rates Effective Beginning</i> | <i>Full Service Domestic</i> | | <i>Interim Agricultural Program⁽¹⁾</i> | | <i>Direct Replenishment⁽¹⁾</i> | |
|----------------------------------|------------------------------|------------------|---|------------------|---|------------------|
| | <i>Treated</i> | <i>Untreated</i> | <i>Treated</i> | <i>Untreated</i> | <i>Treated</i> | <i>Untreated</i> |
| January 1, 2008 Tier 1 | \$508 | \$351 | \$394 | \$261 | \$390 | \$258 |
| January 1, 2008 Tier 2 | 606 | 449 | N/A | N/A | N/A | N/A |
| January 1, 2009 Tier 1 | 579 | 412 | 465 | 322 | 436 | 294 |
| January 1, 2009 Tier 2 | 695 | 528 | N/A | N/A | N/A | N/A |
| January 1, 2010 Tier 1 | 701 | 484 | 615 | 416 | 558 | 366 |
| January 1, 2010 Tier 2 | 811 | 594 | N/A | N/A | N/A | N/A |
| January 1, 2011 Tier 1 | 744 | 527 | 687 | 482 | 601 | 409 |
| January 1, 2011 Tier 2 | 869 | 652 | N/A | N/A | N/A | N/A |
| January 1, 2012 Tier 1 | 794 | 560 | 765 | 537 | 651 | 442 |
| January 1, 2012 Tier 2 | 920 | 686 | N/A | N/A | N/A | N/A |
| January 1, 2013 Tier 1 | 847 | 593 | N/A | N/A | N/A | N/A |
| January 1, 2013 Tier 2 | 997 | 743 | N/A | N/A | N/A | N/A |
| January 1, 2014 Tier 1 | 890 | 593 | N/A | N/A | N/A | N/A |
| January 1, 2014 Tier 2 | 1,032 | 735 | N/A | N/A | N/A | N/A |
| January 1, 2015 Tier 1 | 923 | 582 | N/A | N/A | N/A | N/A |
| January 1, 2015 Tier 2 | 1,055 | 714 | N/A | N/A | N/A | N/A |
| January 1, 2016 Tier 1 | 942 | 594 | N/A | N/A | N/A | N/A |
| January 1, 2016 Tier 2 | 1,076 | 728 | N/A | N/A | N/A | N/A |

⁽¹⁾ MWD has discontinued this program.
Source: Eastern Municipal Water District.

MWD levies *ad valorem* taxes upon all the property taxable for MWD purposes in the MWD service area, including the District’s service area. Beginning on July 1, 1990, in accordance with the MWD Act, MWD

must limit its tax levy to the amount needed to pay: (i) the general obligation bond debt service of MWD; and (ii) that portion of MWD's payment obligation under its water supply contract with the State of California attributable to debt service on certain State of California general obligation water bonds. This will effectively accelerate over time the shift of total costs to water users, including the District. Taxes will cease to be levied when the general obligation bonds of MWD and the State of California general obligation water bonds are fully paid, although the MWD Act permits the MWD Board to continue to levy taxes upon a declaration of fiscal necessity.

District Water Facilities

The District's distribution system for potable water includes 83 water booster or pumping plants, 191 million gallons of surface storage capacity and approximately 2,443 miles of pipeline ranging from 4 to 60 inches in diameter.

Wells. Locally, the District maintains 18 active domestic production wells. The wells, which supplied 18% of the District's domestic water in Fiscal Year 2014, are listed by location, current status and Fiscal Year 2014 production in the following table.

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TABLE 6
EASTERN MUNICIPAL WATER DISTRICT
Active Domestic District Wells

| <i>Location and Current Status</i> | | <i>Fiscal Year 2014</i> | <i>Current Pumping</i> | |
|---|-------------|-------------------------|-------------------------------|----------------------|
| | | <i>Production</i> | <i>Capacity⁽¹⁾</i> | |
| | | <i>(in acre feet)</i> | <i>gallons/minute</i> | <i>acre feet/day</i> |
| San Jacinto Basin – Cienega Area of Canyon Sub-Basin | | | | |
| No. 17 Cienega Well | – (Active) | 1,300 | 1,549 | 6.9 |
| No. 26 Cienega Well | – (Active) | 1,921 | 2,201 | 9.7 |
| No. 34 Cienega Well | – (Active) | 886 | 1,298 | 5.8 |
| San Jacinto Basin – Intake Area of Upper Pressure Sub-Basin | | | | |
| No. 14 River Bed Well | – (Active) | 473 | 903 | 4.0 |
| No. 25 Fruitvale Well | – (Active) | 1,998 | 1,750 | 7.7 |
| No. 27 Hewitt/Evans Well | – (Standby) | 0 | 0 | 0.0 |
| No. 33 Mountain Avenue Well | – (Active) | 614 | 799 | 3.5 |
| No. 36 New Washington St | – (Active) | 902 | 1,215 | 5.4 |
| No. 80 New 7th St Well | – (Active) | 0 | 1,750 | 7.7 |
| San Jacinto Basin – Upper Pressure Sub-Basin | | | | |
| No. 29 Quandt Well | – (Active) | 1,137 | 1,424 | 6.3 |
| No. 90 Evans/Old Mtn Well | – (Active) | 1,733 | 1,896 | 8.4 |
| No. 91 Ramona/Espl Well | – (Active) | 1,222 | 1,951 | 8.6 |
| No. 92 Ramona/Hemet Well | – (Active) | 1,424 | 1,896 | 8.4 |
| San Jacinto Basin – Hemet South Sub-Basin | | | | |
| No. 35 Palm & Menlo Well | – (Active) | 434 | 910 | 4.0 |
| San Jacinto Basin – Perris North Sub-Basin | | | | |
| No. 55 Perris II Well | – (Active) | 1,130 | 750 | 3.3 |
| No. 56 Perry Well | – (Active) | 1,562 | 1,042 | 4.6 |
| No. 57 Follico Well | – (Active) | 808 | 1,048 | 4.6 |
| No. 59 Indian Well | – (Active) | <u>1,459</u> | <u>1,000</u> | <u>4.4</u> |
| Total Production | | 19,003 | 23,382 | 103.3 |

⁽¹⁾ Tested capacity can vary with changes in water table.
Source: Eastern Municipal Water District.

The District’s wells are considered to be deep-well production wells ranging in depth to 1,696 feet. Pumping levels for production range from 100 to 516 feet. The 18 production wells have a combined production capability of 23,382 gallons per minute, which equates to approximately 103.3 acre feet per day. The District has conducted studies to determine the safe yield of the groundwater sub-basins serving these wells. The development and production of future wells will depend on the safe yield of the groundwater sub-basins. See the caption “—Groundwater Supplies—Soboba Settlement Agreement” for a discussion of certain groundwater recharge activities of the District.

Pipelines. The District’s water distribution system consists of approximately 2,461 miles of pipeline ranging in diameter from 4 inches to 60 inches.

Pressure Zones. Because elevations within the District vary from approximately 1,120 to approximately 3,160 feet, the District’s water distribution system includes 70 pressure zones which provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 90 pounds per square inch.

Each pressure zone requires pumping plants or other sources of supply for providing water at the desired pressure. Most pressure zones also have storage facilities for providing water during peak demand and under emergency and fire flow conditions.

Storage Facilities. The District's water system includes 77 active water storage facilities located throughout the District. These facilities provide approximately 191 million gallons of storage. The active reservoirs are ground level circular steel tanks; in addition, there are five small hydro-pneumatic booster tanks and three small blending tanks, ranging in size from 0.08 million gallons to 8.4 million gallons. The ground level reservoirs are situated at elevations high enough to provide water by gravity flow. The reservoirs are used to store water for fluctuating hourly demands (regulating storage), fire flow demands and emergency purposes. Given these considerations, it is the District's intent to manage water storage efficiently by use of a telemetry system. The District's storage facilities maintain an approximately 2.3 day supply of water.

Pumping Plants. The District is required to pump almost its entire supply of water because of the elevations of MWD's filtration plants relative to the District's service area. Two pressure zones in Murrieta Hot Springs can be supplied by gravity from MWD's Robert A. Skinner Treatment Plant (the "Skinner Plant").

The District currently has three major pumping plants which are essential in the supply of MWD water. The most significant, the Mills Pumping Plant, delivers approximately 38% of the total supply on a maximum demand day. The combined capacity of the District's three pumping plants is 86 mgd; however, system conditions limit the pumping plants' capacity to 80 mgd under maximum operating conditions (one mgd equals approximately 3 acre feet per day). In addition, there are currently 77 potable and 6 raw water pumping stations in operation.

Menifee/Perris Desalters. The District operates two brackish groundwater desalination plants located adjacent to each other. These plants use reverse osmosis to treat a combined plant capacity of 7 mgd. Plant production is blended with excess well production to provide a total potable supply of 9 mgd to the water system. The desalters are fed by 11 brackish (i.e. non-domestic) water wells pumping from the South Perris groundwater sub-basin. As described under the caption "—Groundwater Supplies," the District is currently constructing an additional well to expand its desalination system.

Perris Water Filtration Plant ("PWFP"). PWFP is a 24 mgd membrane filtration plant. Supply to PWFP comes from the EM-4A/B and the EM-22 MWD raw water connections. EM-4A/B supplies a mix of State Project water and Colorado River water and has a capacity of 80 cubic feet per second. EM-22 primarily supplies State Project water and has a capacity of 40 cubic feet per second.

Hemet Water Filtration Plant ("HWFP"). HWFP is a 12 mgd membrane filtration plant. Supply to HWFP comes from the EM-14 MWD connection. EM-14 supplies State Project water and has a capacity of 47 cubic feet per second.

Connections to MWD Facilities

Colorado River water is transported from Lake Havasu through the Colorado River Aqueduct to the terminus at Lake Matthews in Riverside County. State Project water is delivered to MWD through the 444 mile California Aqueduct to the Lake Perris terminus in Riverside County. Short of the Lake Perris terminus, MWD takes water from the Santa Ana Valley Feeder into its Henry J. Mills Treatment Plant (the "MWD Mills Plant").

The District has access to MWD imported water through three active potable water connections and four active raw water connections with MWD facilities. The connections are capable of flows of approximately 100 mgd from the MWD Mills Plant, 24 mgd of Colorado River water from the District's Perris Water Filtration Plant, 97 mgd from the Skinner Plant and 30 mgd of untreated State Project water in the Hemet/San Jacinto area. The 30 mgd connection is the supply for the District's 12 mgd Hemet Water Filtration Plant.

Three major connections connect the District to supplies from the MWD Mills Plant and the Skinner Plant. The connection at the MWD Mills Plant is the District's primary source of filtered water. Due to the elevation of the MWD Mills Plant, water must be pumped into the District's system. The MWD Mills Plant can deliver up to 100 mgd to the District under maximum operating conditions. District facilities are only capable of pumping approximately 80 mgd into the transmission-distribution system via the District's Mills Pumping Plant. In addition, the District obtains a blend of filtered State Project water and Colorado River water from the Skinner Plant through a connection at Auld Road and Leon Road. The Skinner Plant can deliver up to 97 mgd under maximum operating conditions. However, existing District facilities can deliver only 87 mgd into the transmission-distribution system. Of the 87 mgd that the District can deliver, only 42 mgd can be transmitted to the northern three-fourths of the District's service area. See the caption "—The Metropolitan Water District of Southern California."

MWD Supplies

As discussed above, approximately 52% of District's water supply (including approximately 76% of its potable water supply) is imported from MWD. For Fiscal Year 2014, MWD supplied the District with approximately 76,898 acre feet of water. MWD member agencies, which use MWD water to supplement their own local water supplies, can be expected to increase their purchases of MWD water if their local water supplies are reduced. MWD reports that it had approximately 1.82 million acre feet of water in storage as of the 2014 year end, compared to approximately 2.95 million acre feet, 3.36 million acre feet, 3.00 million acre feet and 2.33 million acre feet of water in storage as of January 1, 2014, January 1, 2013, January 1, 2012 and January 1, 2011, respectively.

MWD faces various challenges in the continued supply of imported water to 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 periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. MWD has also entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, notices of certain enumerated events as defined under Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12") and annual audited financial statements (together with MWD's official statements and other disclosure documents, the "MWD Information") with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/> ("EMMA"). The MWD Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. **MWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2015B BONDS.**

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH MWD INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE 2015B BONDS UNDER RULE 15c2-12.

Drought Measures

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the "Declaration") with immediate effect. The Declaration includes the following orders, among others: (a) local urban water suppliers, including the District, are encouraged to implement their local water shortage contingency plans; the District's plan is discussed in the following paragraph; (b) local urban water suppliers,

including the District, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) DWR and the SWRCB are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the “Bay-Delta”), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions. The SWRCB has notified the District in writing that the District is in full compliance with the SWRCB’s directives regarding water conservation.

On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested. It is anticipated that the District will comply with the new regulations through its SWRCB-approved qualifying rate structure and water shortage contingency plan (the “WSCP”), each as discussed under the caption “—District Response to Drought.” MWD has also invoked its Water Supply Allocation Plan (the “WSAP”) in response to the March 17, 2015 regulations. The WSAP provides for the equitable distribution of available water supplies in case of extreme water shortage within MWD’s service area. On April 14, 2015, MWD approved implementation of WSAP Level 3 (Water Supply Allocation) effective July 1, 2015, which among other things will impose a surcharge of between \$1,480 and \$2,960 per acre foot of water usage above MWD members’ water allocation. Any such surcharges, if imposed on the District, would be passed through to customers.

On April 1, 2015, the California Governor issued an executive order extending the measures set forth in the Declaration and adopting the following additional orders, among others: (i) the SWRCB is directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier’s service area with higher per capita use must achieve proportionally greater reductions than areas with lower per capita use; (ii) DWR is directed to fund a statewide initiative to replace 50 million square feet of lawns with drought tolerant landscaping; (iii) the California Energy Commission is directed to implement a rebate program for replacement of inefficient appliances; (iv) urban water suppliers are required to provide monthly water usage, conservation and enforcement information; (v) service providers are required to monitor groundwater basin levels in accordance with California Water Code § 10933; (vi) permitting agencies are required to prioritize approval of water infrastructure and supply projects; and (vii) DWR is required to plan salinity barriers in the Bay-Delta. On May 6, 2015, the SWRCB adopted regulations in response to the Governor’s executive order that require the District to effect a 28% reduction from 2013 water usage.

District Response to Drought. Under the District’s WSCP, the District responds to a drought in stages in concert with regional water planning groups and neighboring water service providers. Implementation of the WSCP begins with the General Manager’s declaration of a potable water shortage emergency applicable to all customers, followed by public notice of such declaration. The first WSCP stage (Supply Watch) calls for voluntary 10% reductions in water use. The second WSCP stage (Supply Alert) calls for voluntary 25% reductions in water use and reducing yard irrigation by one day per week, repairing leaks or water line breaks promptly, ending refills of artificial lakes and not using potable water to wash vehicles. The third WSCP stage includes Stage 3A (Mandatory Waste Reduction), which eliminates water use variances to fill swimming pools, establishes new landscaping requirements and requires water leaks to be fixed within 48 hours, and Stage 3B, which decreases Tier 3 water budgets by 50% and then 100%. In addition, penalties are levied for violations of the Water Conservation provisions of the District’s Administrative Code. The fourth WSCP Stage (Mandatory Outdoor Reduction) limits yard irrigation to one day per week (two days per week in summer months) and decreases Tier 2 water budgets by 10% (Stage 4A), 50% (Stage 4B) and then 100% (Stage 4C). In addition, penalties are levied for violations of the Water Conservation provisions of the District’s Administrative Code. The fifth WSCP stage (Mandatory Indoor Reduction) decreases Tier 1 water budgets by 10%, 30% and then

50%. The District's tiered rate structure is discussed under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges."

Effective June 1, 2015, the District will begin implementation of Stage 4A (Mandatory Outdoor Reduction) of the WSCP in response to the SWRCB regulations promulgated under the Governor's April 1, 2015 executive order. Stage 4A calls for customers to reduce outdoor potable water irrigation by 50% and will reduce Tier 2 water budgets by 10% and eliminate Tier 3 water budgets. The District believes that such actions will likely enable it to reduce water usage by up to 28% from 2013 amounts in accordance with the regulations adopted by the SWRCB on May 6, 2015. Such reductions must occur by February 2016 under the SWRCB regulations.

In some cases, actions taken pursuant to the Declaration could result in additional water being made available to the District, while in other cases, actions taken pursuant to the Declaration could reduce water supplies. The District believes that implementation of Stage 4A of the WSCP is likely to be revenue neutral in Fiscal Year 2016 as users pay more for water in the first half of such Fiscal Year but reduce water consumption in the second half of such Fiscal Year. While implementation of the WSCP in future years may result in lower water sales revenues, it is also likely to result in lower operating costs, in particular water purchase costs and energy costs for water deliveries. The projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" reflect the implementation of Stage 3A of the WSCP, which stage was in place prior to June 1, 2015. The District does not believe that the implementation of Stage 4A of the WSCP will have a material adverse effect on its ability to generate sufficient Net Water and Sewer Revenues to pay the Installment Payments when due. See the Official Statement under the caption "SECURITY FOR THE 2015B BONDS—Installment Payments Payable from Net Revenues."

If a water shortage should arise, legal issues exist as to whether different California Water Code provisions should be invoked to require reasonable regulations for the allocation of water in time of shortage. Any curtailment that is accompanied by an increase in MWD water charges (such as the surcharge under MWD's WSAP discussed under the caption "—State Orders") to its member agencies could necessitate an increase in the District's water rates to District customers. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources."

Groundwater Supplies

General. The District produces approximately 12% of its total domestic water supply from 14 wells located on the east side of the San Jacinto groundwater basin (the "San Jacinto Basin") and approximately 6% of its total domestic water supply from 4 wells located on the west side of the San Jacinto Basin. To maintain its production capacity, the District is also in the process of drilling an additional well (Well 38) to replace a well that was recently taken out of production. The east side of the San Jacinto Basin also provides groundwater for the cities of Hemet and San Jacinto, LHMWD and private well owners; use by private well owners is primarily for agricultural irrigation. The District also produces approximately 6% of its total domestic supply from wells in the Perris South and Lakeview sub-basins that contain brackish water that must be desalinated prior to use.

The Watermaster. Groundwater uses by public agencies (the District, LHMWD and the cities of Hemet and San Jacinto) and certain private well owners on the east side of the San Jacinto Basin have been adjudicated pursuant to a stipulated judgment (the "Judgment") dated April 18, 2013 in the matter of *Eastern Municipal Water District v. City of Hemet, et al.*, Superior Court of California, County of Riverside Case No. RIC 1207274. The Judgment contains a physical solution to meet the requirements of water users with rights in the groundwater sub-basins. Pursuant to the Judgment, a court-created watermaster (the "Watermaster") has been appointed to administer adjudicated water rights of the parties that are subject to the Judgment and manage groundwater recharge and storage within the groundwater sub-basins. The Watermaster is governed by a 5-member board, to which the District appoints one representative. Each board member has equal voting rights.

The adjudicated portion of the San Jacinto Basin is estimated to be in a state of overdraft in the approximate amount of 10,000 acre feet per year; such amount will be refined through further studies to be carried out by the Watermaster. Under the Judgment, the initial safe yield of the adjudicated portion of the San Jacinto Basin was estimated to be approximately 45,000 acre feet per year.

To achieve a reduction of groundwater production to this level, an Adjusted Base Production Right (the “ABPR”) was established for each of the participating public agencies that are subject to the Judgment. The ABPR quantity was reduced by 10% in the first year following the Judgment, with subsequent reductions of 7% per year required for the following five years in order to reduce groundwater production to a sustainable level. For calendar year 2015, the District’s ABPR is 9,300 acre feet, which will be reduced to 7,303 acre feet by 2019.

In addition to the District’s ABPR, the District has access to groundwater that it recharged into the adjudicated portion of the San Jacinto Basin prior to 2012. Such supplies are supplemented by water that has been recharged under the Settlement Act (as described under the caption “—Soboba Settlement Agreement”), which on a long-term basis provides up to approximately 2,400 acre feet per year of groundwater to the District.

The District’s groundwater production right will be increased to the extent that land used for agricultural purposes by certain private producers (for which such private producers currently pump groundwater) is converted to developments that receive their water service from the District.

The Watermaster is entitled to levy upon the agencies that are subject to the Judgment: (i) an administrative assessment (\$30 per acre foot for calendar year 2015) on groundwater pumped up to the parties’ respective base production amounts, which will be used to cover administrative costs of the Watermaster; and (ii) a replenishment assessment for groundwater pumped by the parties in excess of their respective base production amounts, which will be used to purchase water for groundwater recharge and to maintain facilities for such recharge; the Watermaster is currently evaluating the costs of purchasing water for groundwater recharge in consultation with the District and other agencies subject to the Judgment. Accordingly, the amount of such replenishment assessment has not yet been determined.

The District’s groundwater programs include the following elements:

Groundwater Management Activities. The non-adjudicated portion of the San Jacinto Basin (primarily located on west side of such basin) is managed pursuant to a groundwater management plan developed pursuant to Assembly Bill 3030 (the “AB 3030 Groundwater Management Plan”). The District adopted the AB 3030 Groundwater Management Plan in 1995 to implement regional strategies for the protection and management of local groundwater resources on the west side of the San Jacinto Basin. Elements of the AB 3030 Groundwater Management Plan include: (i) the establishment of a groundwater basin manager (the District) and an advisory committee that consists of cities, water municipalities and private groundwater producers that overlay the west San Jacinto Basin; (ii) monitoring of groundwater production and quality; (iii) a well abandonment and destruction program; (iv) artificial recharge of imported water, recycled water and water resulting from water harvesting; (v) recovery of degraded groundwater for blending with imported water; and (vi) recovery of brackish groundwater using demineralization treatment technologies.

The District prepares an annual report to document AB 3030 Groundwater Management Plan implementation and activities, including an analysis of the previous year’s groundwater monitoring data, a summary of groundwater-related changes from previous years, updates on the activities of the various management zones and goals and recommendations for the following year. All costs associated with the implementation of the AB 3030 Groundwater Management Plan are borne by the District.

The District is developing additional groundwater sources within the cities of Moreno Valley (in the Perris North sub-basin) and Perris (in the Perris North and Perris South sub-basins). In the Perris North sub-basin, water levels have been steadily increasing since the late 1990s as agricultural uses give way to

development, resulting in less groundwater production and large amounts of water being supplied from the Perris Reservoir.

Brackish Groundwater Desalination. The District has constructed two desalters with a combined annual capacity of 9,600 acre feet. See the caption “—District Water Facilities—Menifee/Perris Desalters.” A third desalter is in the final design phase and will expand the desalination program capacity to 15,000 acre feet per year. The District received a \$1,000,000 grant to provide partial funding for a new well to feed the desalination system, construction of which well has now commenced. The District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants as well as reduce brine disposal costs. The District also received a \$1,000,000 grant from the State of California for partial funding of three additional desalter wells. The United States Army Corps of Engineers has budgeted \$2,500,000 and \$3,600,000 in federal fiscal years 2014-15 and 2015-16, respectively, for a total of \$6,100,000, to fund the aforementioned three desalter wells.

Soboba Settlement Agreement. In 2008, the President signed the Soboba Settlement Act (the “Settlement Act”) to settle a lawsuit filed by the Soboba Band of Luiseño Indians (the “Soboba Band”) against MWD, LHMWD and the District. The lawsuit alleged that the construction of the San Jacinto Tunnel and Lake Hemet by MWD and LHMWD, respectively, had adversely affected the Soboba Band’s water rights. The Settlement Act requires the District to contract with MWD for an annual supply of at least 7,500 acre feet of imported water to be recharged into the groundwater basin and to construct facilities to enable such recharge. In addition, the District participates in a groundwater management plan (the Hemet San Jacinto Integrated Recharge and Recovery Program, or “IRRP”) with other local groundwater pumpers, including LHMWD and the cities of Hemet and San Jacinto. The IRRP is the physical solution approved under the Settlement Act. 2012 marked the first year of recharge under the stipulated judgment. The District’s total share of facilities construction costs and cash settlement payments under the Settlement Act was approximately \$8.9 million, or approximately 33.7% of the \$26.6 million total paid by all parties. This figure does not include the District’s 33.7% share of the annual costs associated with the recharge of at least 7,500 acre feet of water for future years. Such costs are not included in projected Operating Expenses set forth in Table 20 under the caption “PROJECTED OPERATING RESULTS” because water purchased for recharge pursuant to the Settlement Act is not sold to District customers and is treated as an asset (water inventory) that is available to the District so long as groundwater levels available to the Soboba Band meet the requirements of the Settlement Act. See Note 11 in Appendix B for a more detailed description of the District’s accounting treatment of the costs of water purchased for recharge pursuant to the Settlement Act.

Recycled Water. Approximately 33% of the District’s water supply consists of recycled water. In Fiscal Year 2014, the District produced approximately 47,707 acre feet of recycled water. Recycled water is utilized during summer months. In winter months, the excess recycled water can be used to augment natural recharge and increase groundwater basin yield. The District has entered into a cooperative agreement with the U.S. Army Corps of Engineers with respect to the San Jacinto River Ecosystem Restoration Feasibility Study to evaluate and determine the feasibility of restoring the river ecosystem and the use of different water supply sources, including recycled water for ecosystem restoration in conjunction with groundwater recharge. In 2008 and 2009, the District completed an initial feasibility study and strategic plan identifying Indirect Potable Reuse (through advanced treatment and groundwater recharge) as a key future strategy for achieving 100% year-round utilization of available recycled water supplies. The District is also participating in a Demineralization and Non-Potable Water Conversion Feasibility Study with Rancho California Water District to investigate the feasibility of demineralization of recycled water and conversion of avocado groves and other crops to this non-potable water source.

Sustainable Groundwater Management Act. On September 16, 2014, the State Governor signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act, or “SGMA”) into law. The SGMA constitutes a legislative effort to regulate groundwater on a Statewide basis. Under the SGMA, DWR designated groundwater basins in the State as high, medium, low or very low priority for purposes of groundwater management by January 31, 2015. By January 31, 2017, local

groundwater producers must establish or designate an entity (referred to as a groundwater sustainability agency, or “GSA”), subject to DWR’s approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a groundwater sustainability plan for DWR’s approval by January 31, 2020. Alternatively, groundwater producers can submit a groundwater management plan under Part 2.75 of the California Water Code or an analysis for DWR’s review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years. Such alternative plan must be submitted by January 31, 2017 and updated every five years thereafter.

GSA’s must consider the interests of all groundwater users in the basin and may require registration of groundwater users, the installation of flow meters to measure groundwater extractions and annual reporting of extractions. In addition, GSA’s are authorized to impose spacing requirements on new wells, monitor, regulate and limit or condition groundwater production and establish production allocations among groundwater producers, among other powers. GSA’s are authorized to impose fees to fund such activities and to fine or issue cease and desist orders against producers that violate the GSA’s regulations. Groundwater sustainability plans must include sustainability goals and a plan to implement such goals within 20 years.

The SGMA specifically exempts the east side of the San Jacinto Basin, which has been adjudicated pursuant to the Judgment, from the requirement to establish a groundwater sustainability plan and certain other provisions. See the caption “—The Watermaster.” The District does not currently expect its groundwater extraction rights or costs in the west side of the San Jacinto Basin to change significantly as a result of the enactment of the SGMA because the District is already managing such areas as part of the AB 3030 Groundwater Management Plan discussed under the caption “—Groundwater Management Activities,” as permitted by the SGMA. The District believes that any modifications to the AB 3030 Groundwater Management to meet SGMA requirements will not have a significant fiscal impact, nor are they expected to have a material impact on the District’s groundwater supply from such areas. All of the District’s groundwater wells are currently metered, as required by the SGMA.

The District does not currently expect the enactment of the SGMA to have a material adverse effect on the District’s ability to generate sufficient Net Revenues to pay the Installment Payments.

Quality of District Water

The District receives treated water from MWD which, to the District’s knowledge, meets all current requirements of the federal Safe Drinking Water Act and regulations of the SWRCB’s Division of Drinking Water. Because of the current drought conditions discussed under the caption “—Drought Measures,” the District currently receives a higher percentage of Colorado River water from its MWD supplies. Such water has higher salinity levels than other MWD sources such as the State Project.

The District has more than 40 sources of water. It is not uncommon for raw groundwater or surface water to have measurable contaminants. Groundwater in the San Jacinto Basin is of excellent quality and the District’s domestic wells in such basin meet federal and State of California regulations. The other District wells in the Hemet and Perris groundwater sub-basins produce water of good to excellent quality and if needed, water from such wells is treated either by blending or reverse osmosis to comply with all State of California and federal standards. Two surface water treatment plants use ultrafiltration to treat the raw imported water in order to comply with regulations.

Water Production

The term “water production” describes the quantity of water the District obtains from all sources to meet its consumers’ needs. These sources include the District’s wells, desalination plants, District purchases from MWD and recycled water. It also includes losses incurred between the source and the ultimate use by the consumer. These losses may result from pipeline breaks, leakage, evaporation from operating reservoirs and

metering discrepancies. Water production of the District for the last five Fiscal Years is shown in the following table:

**TABLE 7
EASTERN MUNICIPAL WATER DISTRICT
Water Production in Acre Feet**

| <i>Fiscal Year</i> | <i>Domestic Retail</i> | <i>Wholesale</i> | <i>Agriculture</i> | <i>Recycled Water</i> | <i>Total Production</i> ⁽¹⁾ |
|--------------------|------------------------|----------------------|----------------------|-----------------------|--|
| 2010 | 85,062 | 4,592 | 3,706 | 45,862 | 139,222 |
| 2011 | 82,168 | 4,573 | 2,863 | 46,432 | 136,036 |
| 2012 | 83,944 | 3,610 | 2,708 | 46,937 | 137,199 |
| 2013 | 88,942 | 3,875 | 3,241 | 46,502 | 142,560 |
| 2014 | 88,422 | 7,218 ⁽²⁾ | 5,845 ⁽³⁾ | 47,707 | 149,192 |

⁽¹⁾ Decrease in water production in Fiscal Year 2011 was due to decreased demand caused by water conservation efforts and economic conditions within the District’s service area.

⁽²⁾ Increase from Fiscal Year 2013 reflects a large purchase (3,270 acre feet) of wholesale water in Fiscal Year 2014, which was sold for agricultural use to LHMWD. LHMWD did not purchase wholesale water in Fiscal Years 2010 through 2013.

⁽³⁾ Increase from Fiscal Year 2013 reflects large purchases by agricultural customers during period of warm weather in the second half of 2013.

Source: Eastern Municipal Water District.

The table below sets forth the estimated annual amount of water per active account consumed for domestic purposes in the District’s service area for the last five Fiscal Years. The water needed to satisfy these domestic consumption levels was furnished by the District.

**TABLE 8
EASTERN MUNICIPAL WATER DISTRICT
Domestic Water Use Within District’s Service Area**

| <i>Fiscal Year</i> | <i>Use (acre feet)</i> ⁽¹⁾⁽²⁾⁽³⁾ | <i>Billed Accounts</i> | <i>Average Acre Feet Per Account</i> |
|--------------------|---|------------------------|--------------------------------------|
| 2010 | 78,621 | 140,615 | 0.56 |
| 2011 | 75,462 | 138,568 | 0.54 |
| 2012 | 79,752 | 139,478 | 0.57 |
| 2013 | 82,591 | 140,784 | 0.59 |
| 2014 | 84,650 | 142,377 | 0.59 |

⁽¹⁾ Decrease in water use in Fiscal Year 2011 was due to decreased demand caused by water conservation efforts and economic conditions within the District’s service area.

⁽²⁾ Differences from the “Domestic Retail” water production figures set forth in Table 7 reflect water loss and use of water for internal District purposes.

⁽³⁾ Excludes wholesale sales of domestic water.

Source: Eastern Municipal Water District.

Water deliveries by the District for the last five Fiscal Years are shown in the table below. The District’s water deliveries are equal to the District’s water production less losses experienced in delivering such water to the consumer.

**TABLE 9
EASTERN MUNICIPAL WATER DISTRICT
Water Deliveries in Acre Feet**

| <i>Fiscal Year</i> | <i>Domestic Retail</i> | <i>Wholesale</i> | <i>Agriculture</i> | <i>Recycled Water</i> ⁽¹⁾ | <i>Total Sales</i> |
|--------------------|------------------------|----------------------|--------------------|--------------------------------------|--------------------|
| 2010 | 78,621 | 4,244 | 3,426 | 28,272 | 114,563 |
| 2011 | 75,462 | 4,200 | 2,629 | 28,926 | 111,217 |
| 2012 | 79,752 | 3,580 | 2,116 | 34,679 | 120,127 |
| 2013 | 82,591 | 3,578 | 2,641 | 34,889 | 123,699 |
| 2014 | 84,650 | 4,294 ⁽²⁾ | 5,584 | 37,467 | 131,995 |

⁽¹⁾ Differences from the “Recycled Water” production figures set forth in Table 7 reflect water loss as well as discharges of recycled water into local waterways during periods of heavy precipitation in accordance with the District’s discharge permits. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters.” The District expects to undertake capital improvements that will enhance its ability to store recycled water during periods of heavy precipitation and sell it during periods of high demand. See the caption “THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvement Plan.”

⁽²⁾ Excludes water delivered to LHMWD for agricultural use, as described in Footnote to Table 7.

Source: Eastern Municipal Water District.

Water Sales and Deliveries

The District’s ten largest customers (including both retail and wholesale customers) accounted for approximately 10.01% of the District’s total water sales revenues in Fiscal Year 2014. These figures do not include recycled water users.

For Fiscal Year 2014, the District had 142,244 domestic active billing accounts and 163 active agricultural/irrigation and other accounts. However, the number of billing accounts does not represent the actual number of District customers because one billing account can encompass multiple users or a multiple number of sites served. For example, one apartment complex can equal one billing account; in addition, if one developer owns two or more apartment complexes, the billing for all such complexes may be aggregated into a single billing account charged to that developer. A similar result may be obtained with respect to irrigation billing accounts. See the caption “DISTRICT SERVICE AREA” for historic water connections of the District.

The District also provides wholesale water service to the cities of Hemet, Perris and San Jacinto, Western Municipal Water District, LHMWD, Nuevo Mutual Water Company and DWR. In Fiscal Years 2013 and 2014, wholesale water sales totaled approximately 3,578 acre feet and approximately 4,294 acre feet, respectively.

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The following table sets forth the District’s ten largest domestic water customers by sales in acre feet as of June 30, 2014.

TABLE 10
EASTERN MUNICIPAL WATER DISTRICT
Largest Domestic Water Customers as of June 30, 2014⁽¹⁾

| <i>Customer Name</i> | <i>Sales in Acre Feet</i> | <i>Annual Revenues</i> |
|--|---------------------------|-----------------------------|
| 1. City of Perris ⁽²⁾ | 2,166 | \$ 2,443,803 |
| 2. Western Municipal Water District ⁽²⁾ | 1,678 | 1,833,521 |
| 3. Moreno Valley School District | 1,138 | 1,327,397 |
| 4. City of Moreno Valley | 969 | 1,355,933 |
| 5. Valley-Wide Recreation and Park District | 956 | 1,280,660 |
| 6. Val Verde Unified School District | 714 | 914,135 |
| 7. Riverside County Economic Development Authority | 626 | 788,372 |
| 8. City of Murrieta | 608 | 863,558 |
| 9. Country Meadows II Association | 495 | 683,796 |
| 10. City of San Jacinto | 357 | 392,724 |
| Total | <u>9,707</u> | <u>\$ 11,883,899</u> |
| Total domestic water sales | 88,944 ⁽³⁾ | \$ 118,695,153 |
| Top 10 customers as a percentage of total | 10.91% | 10.01% |

⁽¹⁾ Data includes potable water sales to all non-agricultural customers. Excludes wholesale customers.

⁽²⁾ Wholesale customer.

⁽³⁾ Includes wholesale sales of domestic water.

Source: Eastern Municipal Water District.

WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE

Wastewater Facilities

The District is currently divided into four sewer service areas—Hemet/San Jacinto, Moreno Valley, Temecula Valley and Perris Valley (including a sub-area known as Sun City)—for purposes of collection, transmission, treatment and disposal of wastewater. Each service area is served by a single regional water reclamation facility (“RWRF”), for which costs and methods of treatment vary, except for the Sun City sewer service sub-area. The Sun City plant has been deactivated as a cost reduction measure and all flows for the Sun City sewer service sub-area are treated at the larger Perris Valley RWRF. The facilities are capable of treating 68 mgd of wastewater and serve approximately 785,000 people. The facilities are linked to a network of nearly 1,799 miles of pipeline and 48 active lift stations. See the caption “DISTRICT SERVICE AREA” for historic wastewater connections of the District.

The design capacity, Fiscal Year 2014 average flow and average percentage of daily flows of each RWRF are provided below. See the caption “THE CAPITAL IMPROVEMENT PLAN” for a discussion of the District’s Capital Improvement Plan and anticipated expansion of several of the RWRFs.

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TABLE 11
EASTERN MUNICIPAL WATER DISTRICT
Regional Water Reclamation Facilities

| <i>RWRF</i> | <i>Average Design Capacity (mgd)</i> | <i>Fiscal Year 2014 Daily Average Flow Treated (mgd)</i> | <i>Daily Average Flow as Percentage of Capacity</i> |
|-----------------------------------|--|--|---|
| Moreno Valley ⁽¹⁾ | 16.0 | 10.8 | 68% |
| Perris Valley ⁽²⁾ | 25.0 | 14.1 | 56 |
| San Jacinto Valley ⁽³⁾ | 11.0 | 6.0 ⁽⁵⁾ | 55 |
| Temecula Valley ⁽⁴⁾ | <u>18.0</u> | <u>14.0</u> | <u>78</u> |
| Total | 70.0 | 44.9 | 64 |

⁽¹⁾ Expansion to 16 mgd was completed in 2013. See the caption “THE DISTRICT—Debt Structure of the District—State Loans.”

⁽²⁾ Expansion to 25 mgd was completed in 2014.

⁽³⁾ Expansion to 14 mgd expected to be completed in 2015. See the caption “THE DISTRICT—Debt Structure of the District—State Loans.”

⁽⁴⁾ Expansion to 18 mgd was completed in 2014. See the caption “THE DISTRICT—Debt Structure of the District—State Loans.”

⁽⁵⁾ Amount excludes 3.7 mgd diverted to Perris Valley RWRF and included in Perris Valley RWRF flow amount.

Source: Eastern Municipal Water District.

Wastewater Facility Usage

Wastewater enters the District’s facilities from three sources: (1) wastewater which is discharged from residences (e.g., houses and apartments); (2) wastewater which is discharged by businesses similar to residential discharge (e.g., office buildings, retail outlets and warehouses); and (3) wastewater which is discharged by users which may add contaminants or pollutants to the wastewater (e.g. restaurants, x-ray and photo processors, carwashes, vehicle repair facilities, dry cleaners and other industrial businesses).

The use of the sewer facilities is monitored by the District’s Source Control Division (the “Division”). The Division is responsible for enforcing the District’s Sewer Use Ordinance, which requires all dischargers to meet State of California and federal requirements for contaminants and pollutants. By monitoring discharges and enforcing pretreatment requirements, the Division regulates the wastewater entering District facilities to a quality suitable for all reclamation uses and ensures that the biosolids regulations are satisfied.

The Division also regulates and inspects over 1,600 other accounts which are authorized to discharge wastewater and administers residential pollution prevention activities to protect District sewer facilities and RWRFs.

Residential users not connected to the sewer system are provided service through the liquid waste hauler program, through which septic haulers can dispose of material in an economical manner at the Sanderson Lift Station in the Hemet/San Jacinto area or at the Perris Valley RWRF. These septic haulers are regulated through permits issued by the Division.

The Division also regulates dischargers to the nonreclaimable waste line collection system owned by the District. These dischargers are regulated through permits issued by the Division.

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The following table sets forth the District’s ten largest wastewater customers by revenues as of June 30, 2014.

TABLE 12
EASTERN MUNICIPAL WATER DISTRICT
Largest Sewer Customers as of June 30, 2014

| <i>Customer Name</i> | <i>Annual Revenues</i> |
|--|----------------------------|
| 1. Pechanga Resort and Casino | \$ 496,291 |
| 2. Stonegate at Towngate | 287,519 |
| 3. Murrieta Valley Unified School District | 214,496 |
| 4. Val Verde School District | 175,560 |
| 5. Hemet Unified School District | 135,151 |
| 6. Rancho Bella Vista Homeowners Association | 134,560 |
| 7. Waterstone at Murrieta Apartments | 131,935 |
| 8. Palm Court Apartments | 130,197 |
| 9. Westwind Enterprises | 128,736 |
| 10. Sienna Pointe Apartments | 112,410 |
| Total | <u>\$ 1,946,855</u> |
| Total sewer revenue | \$ 73,100,086 |
| Top 10 customers as a percentage of total | 2.7% |

Source: Eastern Municipal Water District.

District Recycled Water Supply

The policy of the District is to promote the use of recycled water to provide for the conservation and reuse of all water resources and to utilize this resource for any approved purpose to the maximum extent possible under the laws of the State of California.

The District currently generates approximately 45 mgd of effluent at its four active RWRFs. The amount of effluent is expected to grow to 48 mgd by 2017. In Fiscal Year 2014, 100% of the total recycled water produced which was available for sale (approximately 37,467 acre feet) was sold to customers. Unsold recycled water, if any, is typically transferred to storage ponds and utilized to meet peak demands or is used for incidental groundwater recharge; a small amount is also lost to evaporation. Recycled water customers include 70 active agricultural sites, 6 golf courses, 227 landscape irrigation sites, 5 recreational clubs, 1 wildlife area, 1 power generation facility, 6 wholesale connections and 12 temporary construction meters. In Fiscal Year 2014, sales of recycled water in the District totaled \$6,125,420.

Recycled Water Facilities and Application of Recycled Water

In addition to the four RWRFs, the District’s recycled water facilities include approximately 215 miles of transmission and distribution pipelines, 21 pumping facilities and approximately 6,184 acre feet of storage and percolation ponds. All four of the District’s RWRFs provide tertiary recycled water. See the caption “THE DISTRICT—Debt Structure of the District—State Loans” for a discussion of the expansion of the tertiary treatment capacity of the Temecula Valley RWWF.

The District has identified significant potential recycled water markets within proximity of existing District RWRFs and facilities. The types of markets identified include agricultural uses, golf courses, sod farms, wetlands, cemeteries, commercial and industrial landscaping, park and school turf and purchasers of cooling water for power generation.

Regulatory Matters

As discussed above, the District owns and currently operates four RWRFs, a series of storage ponds, pump stations and distribution systems in its service area. The District's recycled water reuse program includes irrigation of agricultural, commercial and municipal landscaping sites as well as source water for one cooling tower. Four of the RWRFs, including the San Jacinto Valley RWRf, the Moreno Valley RWRf, the Perris Valley RWRf and the Sun City RWRf, are located in the San Jacinto River basin within the jurisdiction of the Santa Ana Regional Water Quality Control Board (the "Santa Ana RWQCB"). The Sun City RWRf has been deactivated as a cost reduction measure and all flows for the Sun City sewer service sub-area are treated at the larger Perris Valley RWRf. The Temecula Valley RWRf is located within the jurisdiction of the San Diego Regional Water Quality Control Board (the "San Diego RWQCB") and, accordingly, is regulated by the San Diego RWQCB; however, a portion of the effluent from the Temecula Valley RWRf that is pumped to and used in the San Jacinto River basin is regulated by the Santa Ana RWQCB.

On September 13, 2000, the San Diego RWQCB issued Order No. R9-2000-0165 (the "San Diego RWQCB Permit") authorizing the District to discharge recycled water within the Santa Margarita River basin. Revision of the San Diego RWQCB Permit will be required if the District expands the Temecula Valley RWRf capacity above 18 mgd. Under the San Diego RWQCB permit, recycled water produced at the Temecula Valley RWRf can be discharged or reused within the Santa Margarita River watershed. The San Diego RWQCB Permit does not have an expiration date.

On March 14, 2014, the Santa Ana RWQCB adopted Order No. R8-2014-0016 amending Order No. R8-2008-0008 (collectively, the "Santa Ana RWQCB Permit") authorizing the District to discharge or reuse recycled water from the four RWRFs in the San Jacinto River basin. The amendment incorporates revised local limits and the associated, revised Sewer Use Ordinance, and updates the salinity water quality objectives to reflect the District's Maximum Benefit basin plan amendment. The Santa Ana RWQCB Permit allows for the reuse of recycled water for non-potable water purposes in the San Jacinto River watershed. The Santa Ana RWQCB Permit does not have an expiration date; however, revision may be needed when there are system or regulatory changes.

In addition, on May 22, 2009, the Santa Ana RWQCB and the State of California issued Order No. R8-2009-0014 and NPDES Permit No. CA8000188, respectively (collectively, the "NPDES Permit"), authorizing the District to discharge effluent from the Perris Valley, Moreno Valley, San Jacinto Valley and Temecula Valley RWRFs and from Rancho California Water District's Santa Rosa RWRf to Temescal Creek in Riverside County. Temescal Creek is a tributary of Reach 3 of the Santa Ana River. The NPDES Permit expired on May 31, 2014. The District has applied for the renewal of the NPDES Permit, and the Santa Ana RWQCB is currently reviewing such application. The expired NPDES Permit remains in effect during the review period.

On February 19, 1993, the United States Environmental Protection Agency issued a final rule for the use and disposal of biosolids (Code of Federal Regulations Title 40, Part 503) ("the "Biosolids Rule"). The Biosolids Rule requires that producers of biosolids meet certain reporting, handling and disposal requirements. Compliance with the biosolids disposal requirements of the Biosolids Rule is required under the San Diego RWQCB Permit and the Santa Ana RWQCB Permit.

Approximately 50,291 wet tons of biosolids were produced from the District's RWRFs in 2013 and reported to the United States Environmental Protection Agency, the State of California and the State of Arizona. All RWRFs have belt press and centrifuge driers for sludge dewatering. The Temecula Valley and Moreno Valley RWRFs also have rotary drum sludge thickeners. Biosolids are the solid, stabilized organic materials generated from the wastewater treatment processes. The District's biosolids are currently hauled daily by a contractor to Arizona for landfill disposal or land application.

On May 2, 2006, the SWRCB issued General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (the “General Order”) requiring public agencies that own sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows. The District is currently enrolled under this General Order and has a certified sanitary sewer management plan.

The District is implementing a salinity and nutrient management plan (an “SNMP”) for the San Jacinto River basin. The District has developed an SNMP for the Upper Santa Margarita River basin together with Rancho California Water District and Elsinore Valley Municipal Water District. In addition, the District is developing an SNMP for Upper Temescal Valley Watershed together with Elsinore Valley Municipal Water District to support the NPDES Permit described above; such SNMP is expected to be completed in late 2016.

THE CAPITAL IMPROVEMENT PLAN

Background

The District’s Capital Improvement Plan (the “CIP”) defines facility improvements to meet water, recycled water and wastewater demands associated with growth in addition to those projects necessary to maintain or replace existing facilities as they age.

The District has recently embarked upon various planning studies required to complete a Capital Plan. The Capital Plan is the District’s long term planning document that contains all of the water, wastewater collection, recycled water, and treatment system capital improvements needed to support the buildout of existing jurisdictional General Plans throughout the District’s service area. The Capital Plan relies on Facility Master Plans for each of these systems to identify the improvements needed, establish when they will be needed and provide updated estimates of their costs. The funding needed to support the District’s short and long term expansion of these systems is then summarized in the Capital Plan. The District is currently updating its Facility Master Plans and Capital Plan using updated growth projections that take into account conservation policy and current land use data. These planning efforts are scheduled to be completed in early 2016. The Capital Plan and Facility Master Plans become the documents from which the District develops its CIP. The CIP spans five years and identifies proposed projects from the Facility Master Plans that are currently required, adds projects where necessary and defers projects when possible. The CIP schedules the necessary construction by project year and the financing necessary to meet this schedule.

The projects on the CIP are tracked during the current construction year and the entire five year program is reviewed and revised on an annual basis. During the annual review, projects are added or deleted based on current growth projections and any newly identified requirements are prioritized into the respective construction years.

Financing of Capital Improvement Plan

The District expects to spend a total of approximately \$105 million in Fiscal Year 2015 on water, sewer, recycled water and other capital improvement projects. The District anticipates entering into additional debt to finance a portion of such projects, with the remainder paid from grants and District reserves, all as described in Table 14 below. The construction requirements of the CIP for the current and next four Fiscal Years are estimated to total approximately \$487 million and are summarized in the table below. All estimates include construction costs, engineering, administration and right-of-way acquisition.

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TABLE 13
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Capital Requirements (Dollars in Millions)

| <i>Fiscal Year</i> | <i>Water</i> | <i>Sewer</i> | <i>Recycled/Other</i> | <i>Annual Total</i> |
|--------------------|--------------|--------------|-----------------------|---------------------|
| 2015 | \$ 39 | \$ 47 | \$ 19 | \$105 |
| 2016 | 32 | 26 | 24 | 82 |
| 2017 | 39 | 33 | 23 | 95 |
| 2018 | 35 | 46 | 21 | 102 |
| 2019 | <u>30</u> | <u>36</u> | <u>37</u> | <u>103</u> |
| Total | \$175 | \$188 | \$124 | \$487 |

Source: Eastern Municipal Water District.

The funds required to finance the CIP will be provided from a number of different sources. The estimated funds and their sources for the current and next four Fiscal Years are set forth in the following table. A portion of the District’s capital requirements will be met by external funds provided from State Loans which have been approved, additional Subordinate Obligations or Parity Obligations and anticipated grants from public agencies.

TABLE 14
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Financing Sources (Dollars in Millions)

| <i>Fiscal Year</i> | <i>District Pay-As-You-Go⁽¹⁾</i> | <i>Approved State Loans and Additional Subordinate or Parity Obligations⁽²⁾</i> | <i>Annual Total</i> |
|--------------------|---|--|---------------------|
| 2015 | \$ 64 | \$ 41 | \$105 |
| 2016 | 17 | 66 | 83 |
| 2017 | 33 | 61 | 94 |
| 2018 | 52 | 50 | 102 |
| 2019 | <u>88</u> | <u>15</u> | <u>103</u> |
| | \$254 | \$233 | \$487 |

⁽¹⁾ Includes grants and proceeds of previously issued District bonds.

⁽²⁾ Includes application of a portion of the proceeds of the 2015B Bonds and additional obligations in the approximate aggregate principal amount of \$40,000,000 in each of Fiscal Years 2016 through 2019. See the caption “THE DISTRICT—Debt Structure of the District—Subordinate Obligations.” There can be no assurance that such additional obligations will be issued.

Source: Eastern Municipal Water District.

Environmental Considerations

Projects undertaken by the District, including, without limitation, those undertaken in the CIP, are generally subject to the California Environmental Quality Act, Sections 21000-21178.1 of the California Public Resources Code, as amended (“CEQA”). Certain projects involving the participation of the Bureau of Reclamation, Department of the Interior, or other federal agencies may also be subject to the National Environmental Policy Act of 1969, 42 United States Code § 4321 *et seq.*, as amended (“NEPA”).

Under CEQA, a project which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, which begins with an Initial Study that determines the level of environmental review based on the expected effects of the project on the environment. The project may require the preparation of an Environmental Impact Report (“EIR”), which is the highest level of review. The EIR reflects not only an independent technical analysis of the project’s potential impacts, but also the comments of

responsible agencies with jurisdiction over the project and the comments of interested members of the public. Contents of the EIR include: a detailed statement of the project's significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between local and short-term uses and long-term productivity; any significant irreversible environmental changes which would result from the project; the project's growth-inducing impacts; and a brief statement setting forth the agency's reasons for determining that certain effects are not significant and hence do not require discussion in the EIR. If the lead agency determines that the project itself will not have a significant effect on the environment, it may adopt a written negative declaration or mitigated negative declaration, reflecting a lower level of environmental review resulting from less than significant effects through mitigation. Once the agency approves or determines to carry out a project, either following the EIR process or after adopting a negative declaration or mitigated negative declaration, it must file notice of such determination with the clerk of the county in which the project is located. Any action or proceeding challenging the agency's determination must be declared in writing to the lead agency within 30 days following the filing of such notice. See the caption "WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters" above for a discussion of the District's compliance with regulations related to its RWRFs.

HISTORICAL FINANCIAL OPERATIONS

Operating Revenues

Collection Procedures. Water and sewer rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, State of California or federal agency. The District bills monthly utilizing a meter reading and billing system for both water and sewer service. Payments are due upon receipt and become delinquent 15 calendar days after the billing date. When a bill for service has become past due and a discontinuance of service notice for nonpayment has been issued, service may be discontinued if the bill is not paid within the time required by such notice.

General. Water and sewer charges were ruled by the California Supreme Court to be fees or charges for purposes of Proposition 218. As a result, new or increased water and sewer rates are subject to majority protest proceedings and cannot exceed the cost of providing service. For a summary description of the provisions and potential effect of Proposition 218 on the District, see the caption "—Certain Limitations on Taxes and Other Revenue Sources."

Under the Master Resolution, the District is required to fix rates which are: (i) reasonably fair and nondiscriminatory; (ii) at least sufficient for the payment of all amounts to be payable from Net Water and Sewer Revenues in each Fiscal Year; and (iii) at least equal to: (1) 115% of Debt Service on all Parity Obligations plus the amount required to be deposited to the Operating Reserve Fund; and (2) 110% of Debt Service on all Parity Obligations and Subordinate Obligations plus the amount required to be deposited to the Operating Reserve Fund.

Under the Installment Purchase Agreement, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (defined as Net Water and Sewer Revenues less all payments due on Parity Obligations) equal to 115% of the Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

See the Official Statement under the caption "SECURITY FOR THE 2015B BONDS—Rate Covenant."

The District's wholesale and retail water rates and monthly sewer service charges are the District's most easily adjusted source of revenue and the Board has historically adjusted such rates as necessary to pay for operations and capital needs not met by other revenue sources.

The projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" reflect increases in water commodity rates and daily service charges averaging approximately 3.8% as of January 1, 2015 and an additional 3.8% as of January 1, 2016, and increases in sewer rates averaging approximately 4.5% as of July 1, 2015. The Board adopted such rate increases on June 18, 2014. In addition, the projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" assume increases in water commodity rates, daily service charges and sewer rates averaging approximately 4.5% after Fiscal Year 2016. All of such rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption "—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

Water Rates and Charges. The District implemented a water budget-based tiered rate structure in April 2009. This structure was intended to reward water use efficiency and discourage water waste. The tiered rate structure was also intended to promote: (i) fairness; (ii) conservation; and (iii) revenue stability. The rate structure is customized for each household and is based on four tiers, with the first two tiers representing the water budget. The tiers are as follows: Tier 1 – Indoor Use; Tier 2 – Outdoor Use; Tier 3 – Excessive Use; and Tier 4 – Wasteful Use. Indoor use rates are based on the number of people in a household at an assumed usage of 60 gallons per person per day. There are also variances for animals, medical needs and filling pools. The outdoor use is based on landscaped area. The basic calculation for outdoor use takes into account the weather each day and the amount of water that would be needed to water the landscaped area if it was turf. Since 2009, the average water consumption per household has dropped as a result of the tiered rate structure. The tiers were developed taking into account the various sources of supply and the incremental cost of using each source to supply the needed demand. The District's least expensive source of supply is groundwater and its most expensive source of supply is the desalters described under the caption "WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Menifee/Perris Desalters."

In addition to the above-described water commodity charges based upon usage, the District imposes a daily service charge described in Table 17 below to cover a portion of the water system's fixed operating costs. The Board also adopted an additional service charge (the "Water Reliability Capital Charge") on June 18, 2014. The Water Reliability Capital Charge is \$1.75 per month per household as of January 1, 2015, increasing to \$2.25 per month per household as of January 1, 2016. The Water Reliability Capital Charge is intended to collect funds to pay for water reliability projects and facilities either on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a parity with or senior to the Installment Payments. The projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" reflect the imposition of the Water Reliability Capital Charge as described above.

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The District’s current and adopted future water rates are as follows:

TABLE 15
EASTERN MUNICIPAL WATER DISTRICT
Current Water Rates

| | <i>Adopted Rates Effective January 1, 2015</i> | <i>Adopted Rates Effective January 1, 2016</i> |
|---------------------------------------|--|--|
| Tier 1 (Indoor Use) ⁽¹⁾ | \$ 1.793 | \$ 1.861 |
| Tier 2 (Outdoor Use) ⁽¹⁾ | 3.280 | 3.405 |
| Tier 3 (Excessive Use) ⁽¹⁾ | 5.879 | 6.102 |
| Tier 4 (Wasteful Use) ⁽¹⁾ | 10.755 | 11.164 |
| Fixed Charges | 0.425 | 0.455 |

⁽¹⁾ Tiered rates are charged per 100 cubic feet.
Source: Eastern Municipal Water District.

Sewer Rates and Charges. Sewer rates set forth in the table below were approved by the Board on June 18, 2014 and were effective July 1, 2014. As discussed under the caption “—General,” the Board adopted additional rate increases on June 18, 2014 that will be effective on July 1, 2015. On January 16, 2013, the Board approved a new sewer billing methodology effective February 1, 2013. Sewer rates are based on daily service charges that vary by geographic location within the District’s service area. Currently, sewer daily service charges range from \$0.761 to \$1.037 per day; as of July 1, 2015, those rates will range from \$0.795 to \$1.084 per day, subject to the application of the sewer block factors outlined below.

TABLE 16
EASTERN MUNICIPAL WATER DISTRICT
Sewer Rate Structure

| <i>Block Number</i> | <i>Block Factor</i> | <i>Number of People in Household</i> |
|---------------------|---------------------|--------------------------------------|
| 1 | 0.75 | 1 – 2 people |
| 2 | 1.00 | 3 – 4 people |
| 3 | 1.25 | 5 – 6 people |
| 4 | 1.75 | 7 people or more |

Source: Eastern Municipal Water District.

The sewer service billing is calculated using the block factor multiplied by the sewer rate. This new sewer service billing methodology enables the District to reasonably charge for sewer service based on household service demands from the sewer system. It is anticipated that the sewer methodology change will be revenue neutral to the District.

In addition to the above-described sewer rates based upon usage, the District imposes a daily service charge described in Table 17 below to cover a portion of the sewer system’s fixed operating costs. The Board adopted an additional service charge (the “Sewer Capital Charge”) on June 18, 2014. The Sewer Capital Charge will be \$1.50 per month per household as of July 1, 2015, increasing to \$2.00 per month per household as of July 1, 2016. The Sewer Capital Charge is intended to collect funds to pay for sewer capital projects and facilities either on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a parity with or senior to the Installment Payments. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the imposition of the Sewer Capital Charge as described in the preceding paragraph.

Summary of Rates and Charges. Although rates vary throughout the District, the following water and sewer rates are representative of those in effect within the District:

**TABLE 17
EASTERN MUNICIPAL WATER DISTRICT
Water and Sewer Rates**

| <i>Service Area</i> | <i>7 Units⁽¹⁾ Tier 1</i> | <i>Water (Effective January 1, 2015)</i> | | | <i>Sewer (Effective July 1, 2014)</i> | |
|---------------------|---|--|--|---|--|--|
| | | <i>11 Units⁽¹⁾ Tier 2</i> | <i>Fixed Charges⁽²⁾</i> | <i>Average Monthly Rate⁽³⁾</i> | <i>Fixed Charges⁽⁴⁾</i> | <i>Average Monthly⁽⁵⁾</i> |
| Perris Valley | \$1.793 | \$3.280 | \$0.425 | \$61.38 | \$1.037 | \$31.11 |
| Menifee | 1.793 | 3.280 | 0.425 | 61.38 | 0.788 | 23.64 |
| Fruitvale | 1.019 | 1.866 | 0.425 | 40.41 | 0.761 | 22.83 |
| Diamond Valley | 1.793 | 3.280 | 0.425 | 61.38 | 0.761 | 22.83 |
| Moreno Valley | 1.793 | 3.280 | 0.425 | 61.38 | 0.782 | 23.46 |
| Temecula Valley | 1.793 | 3.280 | 0.425 | 61.38 | 0.902 | 27.06 |

⁽¹⁾ A unit is a measure of water equal to 100 cubic feet.

⁽²⁾ Water Fixed Charges include a \$0.367 daily charge and a \$0.0575 fixed charge for water supply and reliability capital projects.

⁽³⁾ For example, a water billing for 1,800 cubic feet (18 units) of water for a period of 30 days in the Perris Valley would be calculated as follows: (7 units X \$1.793 per Tier 1 unit) + (11 units X \$3.280 per Tier 2 unit) + (30 days X \$0.425 per day) = \$61.38.

⁽⁴⁾ Sewer Fixed Charges include a variable daily charge.

⁽⁵⁾ For example, a sewer billing for 30 days of sewer service in the Perris Valley would be calculated as follows: 30 days X \$1.037 per day = \$31.11.

Source: Eastern Municipal Water District.

The District's Consolidated Schedule of Rates, Fees and Charges, which includes a fuller description of rates and charges levied by the District, is available on the District's Internet website. None of the information therein is incorporated herein.

The following table provides a summary of the District's gross revenues from water and sewer service and recycled water for the last five Fiscal Years.

**TABLE 18
EASTERN MUNICIPAL WATER DISTRICT
Water Sales and Sewer Service Gross Revenues**

| <i>Fiscal Year</i> | <i>Water Sales</i> | <i>Sewer Service</i> | <i>Recycled Water</i> | <i>Total</i> |
|--------------------|--------------------|----------------------|-----------------------|---------------|
| 2010 | \$102,747,031 | \$61,885,298 | \$4,052,665 | \$168,684,994 |
| 2011 | 102,479,984 | 62,840,013 | 4,504,923 | 169,824,920 |
| 2012 | 104,741,242 | 65,983,462 | 5,135,186 | 175,859,890 |
| 2013 | 112,456,804 | 68,957,128 | 5,676,043 | 187,089,975 |
| 2014 | 122,724,175 | 73,100,086 | 6,125,420 | 201,949,681 |

Source: Eastern Municipal Water District.

Non-Operating Revenues

Standby (Availability) Charges. Under the Law, the District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewer service standby or availability charge, on land within the boundaries of the District to which water and sewer services, respectively, are made available by the District, whether or not the water or sewer service is actually used. Each

such charge may not exceed \$10 per acre per year for each acre (or parcel less than an acre) within the District, except that it may be \$30 per acre per year for each such acre or parcel if any charge in excess of \$10 per acre or parcel is used for the purposes of the particular improvement district in which the acre or parcel is located. Standby charges are collected annually by Riverside County on the secured property tax roll and remitted by Riverside County to the District.

The Law requires that standby or availability charges be approved by ordinance, which is subject to referendum, after public notice and hearing on the proposed charge. The most recently approved standby charges were approved on July 2, 2014 and became effective immediately.

The District currently levies these charges on the land within 15 of its water special improvement districts, 16 of its sewer special improvement districts and 3 of its combined water and sewer special improvement districts. The District also levies a separate charge on land within the entire District. The charges for the various special improvement districts for Zone 1 (that is, areas where service is being made reasonably available, either directly by the District or indirectly by a city, another water district or a water company) vary from a \$1.00 to \$15.00 per acre annual water charge and a \$7.50 to \$15.00 per acre annual sewer charge. The District has established 61 separate special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and 6 are combined water and sewer special improvement districts.

The District may, under circumstances specified under the Law, utilize an alternative procedure for fixing water or sewer standby or availability charges which does not limit the amount of such charges. The District has not utilized such procedure to date.

Standby charges are classified as assessments by the terms of Proposition 218. For a summary description of the provisions and potential effect of Proposition 218 on the District, see the caption “—Certain Limitations on Taxes and Other Revenue Sources.”

Connection Fees. The District has statutory authority to fix and impose upon the customers of the District one-time water and sewer connection fees. In addition, the District has statutory authority to fix and impose upon the customers of the District one-time water and sewer frontage charges. As of Fiscal Year 2014, the District no longer imposes such frontage charges.

Connection fees include water and sewer capacity charges and water and sewer back-up charges. Sewer fees are charged based on a per equivalent dwelling unit (“EDU”) basis and water fees are charged based on an equivalent meter size (“EMS”) basis. The current connection fee rates effective January 1, 2015 are \$4,750 for water and \$7,644 for sewer.

Although one-time connection fees constitute current Water and Sewer Revenues of the District, these amounts are retained by the District for application to its restricted construction fund in accordance with State of California law and utilized for expansion-related projects or used to pay debt service on expansion-related projects which have been financed. See the caption “HISTORICAL OPERATING RESULTS” for connection fee revenues for Fiscal Years 2010 through 2014.

Taxes. Moneys that are received from the District’s share of the Riverside County 1% tax levy constitute Water and Sewer Revenues and are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. Only those special improvement districts receiving tax revenue when Proposition 13 became effective in 1978 are entitled to receive a share of the 1% county general purpose property tax levy, based on the allocation procedure under California law. The tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special improvement districts within the District. The District received \$28,061,489 in property tax revenue from its share of the Riverside County 1% tax levy in Fiscal Year 2014.

The District is expressly empowered under the Law to levy taxes on all taxable property within its boundaries for the purpose of paying the bonded indebtedness of its special improvement districts and, subject to certain limitations in the Law, the California Revenue and Taxation Code and the California Constitution, for other District purposes. Assessed valuation is determined by the Riverside County Assessor. Total assessed valuation of taxable property within the District for Fiscal Year 2015 is approximately \$61.3 billion, which is an increase of approximately 9.7% from the previous year. The District currently levies taxes only to service bonds of its special improvement districts. The proceeds of such taxes do not constitute Water and Sewer Revenues and are neither pledged to nor available to pay Installment Payments.

The Board of Supervisors of Riverside County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. As a result of the implementation of the Teeter Plan by Riverside County, Riverside County apportions secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which Riverside County acts as the levying or collecting agency. The District does not participate in the Teeter Plan. As a result, the District is subject to the risk of delinquencies in the amount of 1% *ad valorem* property taxes received by the District. Historically, however, the District’s receipt of penalties and interest from prior year delinquencies have more than offset current year delinquencies.

Certain Limitations on Taxes and Other Revenue Sources

Article XIII A of the California Constitution. The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” which is defined as “the County Assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, a reduction in the consumer price index or comparable local data or declining property values caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to *ad valorem* taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum *ad valorem* tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the District. The allocation of property tax revenues among special districts, while subject to certain statutory procedures and criteria, is largely discretionary with each county.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and 2% annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

The District normally receives approximately 12 – 14% of its Water and Sewer Revenues (excluding connection fees) from the 1% property tax levy that Riverside County levies in accordance with Proposition 13.

In recent years the allocation of Proposition 13 property taxes to local agencies has been revised such that property tax revenue has been diverted away from special districts, such as the District, to school districts. Prior legislation diverted approximately \$12.6 million of property tax revenues from the District in 2005 and diverted the same amount in 2006.

It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the 1% Riverside County property tax levy paid to the District. In the opinion of District management, any such legislation would not have an adverse effect on its ability to make payments under the Parity Obligations, as the District would be able to compensate for any lost revenues through a combination of rate increases, cost efficiencies and/or cash reserves.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District's water or wastewater user rates or connection fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing water and wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as connection fees are not special taxes if they approximate the reasonable cost of constructing the water and wastewater capital improvements contemplated by the local agency imposing the fee.

Proposition 1A. On November 2, 2004, California voters approved Proposition 1A, which amended the California Constitution to significantly reduce the State of California's authority over major local government revenue sources. Under Proposition 1A, the State of California may not: (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes; (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature; or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses of the State Legislature. Under such a shift, the State of California must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State of California to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the California Constitution to require the State of California to suspend certain California laws creating mandates in any year that the State of California does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

The Amended 2009-10 Budget Act, signed into law on July 28, 2009 by the Governor, provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A. Pursuant to this act, the State borrowed approximately \$2.3 million of the District's 1% property tax revenues for Fiscal Year 2010. Under Proposition 1A, the State was required to repay the property taxes with a 2% rate of interest within three years. The District participated in the State's financing program to make the shifted amounts available to local governments in 2009 through California Statewide Communities Development Authority and received \$2.3 million in connection with such financing.

There can be no assurance that the 1% property tax revenues that the District currently expects to receive will not be temporarily shifted from the District pursuant to Proposition 1A in future Fiscal Years or reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of its share of 1% property tax revenues by the District.

Article XIII B of the California Constitution. Article XIII B of the California Constitution limits the annual appropriations of the State of California and of any city, county, school district, authority or other political subdivision of the State of California to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriation limit is the 1978-79 State of California fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if: (i) the financial responsibility for a service is transferred to another public entity or to a private entity; (ii) the financial source for the provision of services is transferred from taxes to other revenues; or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by or for the State of California or other entity of local government, exclusive of certain State of California subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (b) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by a vote of electors of the issuing entity and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water and Sewer Revenue Fund is not clear. However, to the extent that moneys in the Water and Sewer Revenue Fund are used to pay the costs of maintaining and operating the Water and Sewer System and debt service on Parity Obligations (including the funding of the debt service reserve funds) and Subordinate Obligations, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit. The District is of the opinion that its water and wastewater charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District has covenanted in the Master Resolution and the Installment Purchase Agreement that it will prescribe rates and charges sufficient to provide for payment of the Installment Payments and other Subordinate Obligations in each year. See the Official Statement under the caption “SECURITY FOR THE 2015B BONDS—Rate Covenant.”

Articles XIII C and XIII D of the California Constitution. Proposition 218, a State of California ballot initiative known as the “Right to Vote on Taxes Act,” was approved by California voters on November 5, 1996 and became effective November 6, 1996. Proposition 218 amends the California Constitution by adding Articles XIII C and XIII D and contains a number of interrelated provisions limiting the ability of local governments, including the District, to impose and collect both existing and future taxes, assessments, fees and charges.

Article XIII D establishes procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. The procedural requirements include written notice of assessments to the record owner of each parcel upon which such assessment is to be imposed, the conducting of a public hearing and an election by mailed ballot. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 1996 are classified as exempt from the procedures and approval process of Article XIII D. Expressly exempt assessments include: (i) an assessment imposed exclusively to finance capital costs or maintenance and operation expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements; (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements); (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the federal Constitution's prohibition against the impairment of contracts; and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

Water standby charges and wastewater availability charges are classified as assessments and must comply with the provisions of Proposition 218 pertaining to assessments. Standby or availability charges imposed exclusively to finance the capital costs or maintenance and operation expenses of water or wastewater services which were in effect on the effective date of Proposition 218 need not comply with the approval process applicable to assessments generally. However, future increases in said charges are subject to the protest-election procedures in Article XIII D.

It is the District's belief that the water standby charges and wastewater availability charges are existing assessments imposed to finance capital costs or maintenance and operation expenses for water or wastewater service and are therefore exempt from both the procedural and substantive provisions of Article XIII D because they were in existence on November 6, 1996 and have not been increased in a manner prohibited by Article XIII D. However, in interpreting Proposition 218, a court could conclude that although existing standby or availability charges are exempt from the procedural requirements, such charges must still comply with the substantive provisions of Article XIII D, including the requirement that the assessment on each parcel not exceed the reasonable cost of the proportional special benefit to that parcel.

As discussed under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California," MWD currently imposes a water standby or availability charge that is allocated among MWD's member agencies, including the District. The charge is currently being imposed on parcels within the District. It is the District's understanding that MWD believes that Article XIII D does not apply to MWD's imposition of this standby charge. In the event that a court having proper jurisdiction concluded to the contrary and/or MWD's standby charge is discontinued, the District might have to pay the charge from other revenue sources or attempt to adopt its own standby charge. The protest-election procedures of Proposition 218 may adversely impact the District's ability to continue to pay the charge through levies on parcels in the District. In that event, there can be no assurance that the Net Water and Sewer Revenues of the District would not be adversely affected.

Article XIII D provides that nothing in Proposition 218 will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development. Therefore, it is the District's belief that Proposition 218 does not apply to connection fees and sewer frontage charges, although there can be no assurance that a court would not determine otherwise.

Article XIII D defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." Article XIII D further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

An agency imposing or increasing a property-related fee or charge must provide notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a

public hearing. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests.

Article XIII D includes substantive provisions applicable to existing fees and charges, including provisions that: (i) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (ii) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the property owner; and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. In any legal action construing the validity of a fee or charge, the burden is on the agency to demonstrate compliance with Article XIII D.

Article XIII C provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIII D referred to above are applicable to Article XIII C. Moreover, the provisions of Article XIII C are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the California Supreme Court (the “Court”) held in Bighorn-Desert View Water Agency v. Verjil, 39 Cal.4th 205 (“Bighorn”) that fees for ongoing water service through an existing connection (metered water rates) were property-related fees and charges to which Article XIII C applies.

The Court also ruled in Bighorn that water rates are subject to reduction by voters using the initiative power authorized by Article XIII C. The Court held that such water service charges may, therefore, be reduced as repealed through a local voter initiative pursuant to Section 3 of Article XIII C. At the same time, however, the Court ruled that voters may not use the initiative process to require that they approve proposed new or increased rates in advance of adoption by the agency which, the Court said, is free to adopt “other fees or impose new fees without voter approval.” The Court noted that “[a]lthough this power sharing arrangement has the potential for conflict, we must presume that both sides will act reasonably and in good faith and that the political process will eventually lead to compromises that are mutually acceptable and both financially and legally sound.”

The Court specifically declined to determine in Bighorn whether the voters’ initiative power is limited by the statutory requirement that service charges must be set at a level that will pay for operating and maintenance, repairs, replacements, and debt service because “[t]hat issue is not currently before us.” In any event, the District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2015B Bonds. Remedies available to Beneficial Owners of the 2015B Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2015B Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel delivered with respect to the 2015B Bonds, including the opinion of Bond Counsel (the form of which is attached as Appendix D), were similarly qualified.

Based on the foregoing, the District’s ability to adopt new fees or charges or increase existing fees or charges for water or wastewater service will be subject to both majority protest prior to adoption and to the

initiative process thereafter. For similar reasons, wholesale customers of the District (for example, the cities of Perris, Hemet and San Jacinto and water districts such as Elsinore Valley Municipal Water District) may be limited in their ability to raise sufficient revenues through fees and charges to pay for wholesale services, which could also have an adverse impact on the District's ability to generate Net Revenues sufficient to pay principal of and interest on the 2015B Bonds.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District's tiered water rates are described under the caption "—Operating Revenues—Water Rates and Charges." The District is studying the Capistrano Taxpayers Association ruling but does not currently expect the decision to affect its water rate structure or have a material adverse effect on its financial condition.

The District believes that its current water and wastewater rates and land based charges comply with the requirements of Proposition 218 and expects that any future water and wastewater rates and land based charges will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the California Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The District does not believe that the enactment of Proposition 26 affects its ability to levy rates and charges for water or wastewater service.

Pension Plan

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The District has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports

and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS Plan Summary. The District contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan for all of the District’s full-time and certain of its temporary employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California, including the District. Copies of CalPERS’ annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

All full-time and certain part-time District employees are eligible to participate in CalPERS, with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service. For employees hired prior to November 4, 2010 (referred to below as the “first tier”), the maximum amount is 2.5 percent, and for employees hired on or after November 4, 2010 and generally before January 1, 2013 (referred to below as the “second tier”), such amount is based upon CalPERS’ 2.0 percent at 55 formula. Employees hired on or after January 1, 2013 who were not already a member of a pension system are subject to the California Public Employees’ Pension Reform Act of 2013 (“AB 340”), which was signed by the California Governor on September 12, 2012. AB 340 established a third pension tier of 2.0 percent at 62 with a maximum benefit formula of 2.5 percent at age 67. Benefits for the third tier are calculated on the highest average annual compensation over a consecutive 36-month period. See the caption “—AB 340” below.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The District currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the District’s unfunded actuarial liability (collectively, the “Employer Contributions”). For Fiscal Years 2012, 2013 and 2014, the District’s Employer Contributions, as determined by actuarial valuations of the plan as of June 30, 2010, 2011 and 2012, respectively, were \$7,462,257, \$7,005,690 and \$7,695,750, respectively. For Fiscal Year 2015, the District’s annual pension contribution, as determined by an actuarial valuation of the plan as of June 30, 2012, is \$8,160,464; the District paid such amount in July 2014 under the lump sum payment option. For Fiscal Year 2016, the District’s annual pension contribution, as determined by an actuarial valuation of the plan as of June 30, 2013, will be \$8,782,080, assuming the District exercises the opportunity to pay using the lump sum payment option. Annual pension contributions to be made by the District are expected to climb by approximately \$500,000 per year over the next five years, offset in large part by the additional Employee Contributions described forth below.

The Employer Contribution rate for Fiscal Years 2012, 2013 and 2014 was 15.039%, 14.361% and 15.344%, respectively, of covered payroll. The Employer Contribution rate for Fiscal Year 2015 is 16.136% of covered payroll and the Employer Contribution rate for Fiscal Year 2016 will be 17.812%. The contribution requirements of plan members are established by California statute and the Employer Contribution rate is established and may be amended by CalPERS. According to the latest actuarial valuation of the District’s CalPERS plan, the Fiscal Year 2017 Employer Contribution rate is currently projected to be 19.2%.

Plan participants are required to contribute an actuarially determined percentage of their annual covered salary under the CalPERS plan (the “Employee Contributions”) in the amounts of 8%, 7%, and 6.25%, for employees in the first, second and third pension tiers, respectively. The District makes a portion of the Employee Contributions on behalf of employees (the “EPMC”). The EPMC for employees in the first pension tier is being reduced over the three-year term of the MOU (as discussed under the caption “THE DISTRICT—

Employee Relations”); the District paid 6.5% of the 8% Employee Contribution (or 81.25% of the total Employee Contribution) in the first year (generally Fiscal Year 2014), is paying 5.5% of the 8% Employee Contribution (or 68.75% of the total Employee Contribution) in the second year (generally Fiscal Year 2015) and will pay 4% of the 8% Employee Contribution (or 50% of the total Employee Contribution) in the third year (generally Fiscal Year 2016). The EPMC for employees in the second tier is 3% of the 7% Employee Contribution (or approximately 43% of the Employee Contribution for employees in the second tier). Under AB 340, the District cannot and does not make EPMC contributions for employees in the third tier.

Under Government Accounting Standards Board (“GASB”) Statement No. 27, an employer reports an annual pension cost equal to the annual required contribution (“ARC”) plus an adjustment for the cumulative difference between the annual pension cost and the employer’s actual plan contributions for the year. The cumulative difference is called the net pension obligation or net pension asset. The District reported a net pension asset of \$ \$3,498,232 as of June 30, 2014, which is being amortized over the next 20 years.

The following table summarizes the District’s pension costs for the last five Fiscal Years:

| <i>Fiscal Year</i> | <i>Annual Required Contribution (A)</i> | <i>District-Funded Employee Contribution (B)</i> | <i>Employee Contribution (C)</i> | <i>Annual Pension Cost ((A)+(B))</i> | <i>Percentage of APC Contributed</i> | <i>Net Pension Obligation/ Asset</i> |
|--------------------|---|--|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 2010 | \$5,181,022 | \$3,190,062 | \$455,723 | \$ 8,371,084 | 100% | \$ - |
| 2011 | 5,365,705 | 3,299,466 | 483,794 | 8,665,171 | 100 | - |
| 2012 | 7,462,257 | 3,489,805 | 543,612 | 10,952,062 | 100 | - |
| 2013 | 7,005,690 | 3,230,477 | 555,914 | 10,236,167 | 100 | - |
| 2014 | 7,695,750 | 3,043,506 | 772,559 | 10,739,256 | 100 | - |

(A) Employer’s share only.

(B) Portion of employee’s share that is paid by the District.

(C) Portion of employee’s share that is paid by employee.

The following table sets forth the schedule of funding for the District’s CalPERS plan as of June 30, 2013:

| <i>Valuation Date</i> | <i>AAL⁽¹⁾</i> | <i>Actuarial Value of Assets</i> | <i>UAAL⁽¹⁾</i> | <i>Market Value of Assets</i> | <i>Funded Ratio⁽²⁾</i> | <i>Annual Covered Payroll</i> |
|-----------------------|--------------------------|----------------------------------|---------------------------|-------------------------------|-----------------------------------|-------------------------------|
| 06/30/09 | \$244,915,372 | \$193,853,311 | \$51,062,061 | \$140,704,816 | 57.5% | \$46,795,392 |
| 06/30/10 | 253,245,676 | 207,394,238 | 45,851,393 | 162,739,014 | 64.2 | 46,005,755 |
| 06/30/11 | 277,962,527 | 222,348,810 | 55,613,717 | 198,892,824 | 71.6 | 47,589,726 |
| 06/30/12 | 294,695,866 | 237,984,376 | 56,711,490 | 200,172,704 | 67.9 | 47,986,318 |
| 06/30/13 | 318,263,947 | 226,372,227 ⁽³⁾ | N/A ⁽⁴⁾ | 226,372,227 | 71.1 | 46,781,282 |

⁽¹⁾ Defined below under the caption “—CalPERS Plan Actuarial Methods.”

⁽²⁾ On a market value of assets basis.

⁽³⁾ Beginning with the June 30, 2013 actuarial valuation, the actuarial value of assets equals the market value of assets.

⁽⁴⁾ Beginning with the June 30, 2013 actuarial valuation, this information is no longer reported.

Source: CalPERS Actuarial Report dated October 2014.

For additional information relating to the District’s CalPERS Plan, see Notes 4 and 7 in Appendix B.

CalPERS reported significant investment losses in 2009. CalPERS earnings reports for Fiscal Years 2010, 2011, 2012, 2013 and 2014 reported an investment gain of 13.0%, 21.7%, 1%, 12.5% and 18.4%, respectively. Future earnings performance may increase or decrease future contribution rates for plan

participants, including the District. The CalPERS pension trust pays all retiree benefit payments associated with the District's plan.

CalPERS Plan Actuarial Methods. The staff actuaries at CalPERS prepare annually an actuarial valuation which covers a fiscal year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the District in October 2014 covered CalPERS' fiscal year ended June 30, 2013). The actuarial valuations express the District's required contribution rates in percentages of covered payroll, which percentages the District must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the District's contribution rate derived from the actuarial valuation as of June 30, 2012, which was delivered in October 2013, affects the District's Fiscal Year 2015 required contribution rate). CalPERS rules require the District to implement the actuary's recommended rates. CalPERS provides a lump sum payment option that the District may opt to pay in July of each year, rather than having payment transmitted as a percentage of each reported biweekly payroll.

The annual actuarially recommended contribution rates consist of two components: the normal cost and the unfunded actuarial accrued liability ("UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the actuarial accrued liability (the "AAL") represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the District owes to CalPERS under its CalPERS plans.

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the fiscal year (which assumes, among other things, that the rate of return during that fiscal year equaled the assumed rate of return of 7.5%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies and actuarial assumptions have changed significantly in recent years and are expected to change or be modified further by CalPERS in the future. Certain significant recent changes in assumptions include the following:

1. On April 17, 2013, the CalPERS Board approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the District about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS' fiscal year 2009 market losses described above) of the District's plans in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes will be reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter. As a preliminary estimate, the District has currently budgeted for increases in its annual pension contributions of approximately \$500,000 per year.

2. On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.5%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of

employment, an assumed annual inflation component of 3% and an annual production growth of 0.25%. Although the full impact of such changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%.

Changes in Pension Accounting Standards. Reporting obligations under GASB Statement No. 68 (“GASB 68”) will commence with financial statements for Fiscal Year 2015. Under GASB 68, there are new standards for measuring and recognizing pension liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute such present value to periods of employee service.

AB 340. On September 12, 2012, the California Governor signed AB 340, which implements pension reform in California. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period; and (v) caps pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security) subject to Consumer Price Index increases.

Other provisions reduce the risk of the District incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit. If AB 340 is implemented fully, CalPERS estimates savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the District have not been quantified.

Provisions in AB 340 will not likely have a material effect on District’s contributions in the short term. However, additional employee contributions, limits on pensionable compensation and higher retirement ages for new members will reduce the District’s unfunded actuarial accrued liability and potentially reduce District contribution levels in the long term.

Change in Pensionable Compensation. On August 21, 2014, the CalPERS Board approved changes to clarify the types of compensation upon which pension benefits are based, primarily for employees hired after January 1, 2013. Under the changes, the CalPERS Board identified several dozen specific types of compensation which will count toward pension benefit calculations, including temporary and special assignment payments and certain categories of tasks, and identified types of compensation that will not be included in pension benefit calculations. Although the changes could result in an increase in the District’s future CalPERS contributions, it is not currently possible to quantify the magnitude of such increases. The District believes that any such changes would be immaterial to its CalPERS contributions.

401(A) Plan. District employees are not members of the federal Social Security system. However, the District contributes a portion of what ordinarily would be the District’s participation of Social Security taxes (using a rate of 7.15% on the first \$16,500 of compensation) to a special trust fund (the “401(a) Plan”) for each of its employees to provide additional retirement benefits. The District also makes discretionary contributions to the 401(a) Plan on behalf of the General Manager in accordance with the terms of his employment contract. Total contributions to the 401(a) Plan for Fiscal Years 2014, 2013 and 2012 were \$831,743, \$739,465 and \$867,744, respectively.

As of January 1, 2014, the District also contributes to the 401(a) Plan in an amount that matches a portion the employees’ voluntary contributions made to the District sponsored 457 Deferred Compensation Plan. This matching contribution is up to 1.0% and 1.5% of annual base salary for calendar years 2015 and 2016, respectively. In Fiscal Year 2014, employees voluntarily deferred \$2,335,059 into the 457 Deferred

Contribution Plan and the District provided matching funding of \$96,996 into the 401(a) Plan. The District does not fund contributions into the 457 Deferred Compensation Plan.

Post-Employment Healthcare Benefits

The District provides post-employment health care benefits to all qualified employees who meet the District's CalPERS plan requirements. This plan is an agent multiple-employer defined benefit other post-employment benefits ("OPEB") plan. The OPEB plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in California Government Code Section 22893 (Vesting for Contracting Agency Employees). This amount is 100% of the greater of the Blue Shield HMO or CalPERS Kaiser premium amounts, with adjustments expected in the future based upon negotiated changes in the District's MOU (as discussed under the caption "THE DISTRICT—Employee Relations"). The District also provides healthcare benefits to elected official retirees in accordance with the District's Administrative Code. This plan contributes up to the District's contribution amount for employees and dependent coverage.

In addition, the District provides post-employment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for employees; and a death benefit of \$5,000 up to age 70 and \$2,500 thereafter for elected officials.

The benefit provisions for retired employee health care and life insurance are established and amended through the MOU between the District and its bargaining unit. See the caption "THE DISTRICT—Employee Relations." The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

The contribution requirements of the OPEB plans' participants and the District are established and may be amended by the District.

The annual required contribution (the "OPEB ARC") is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The OPEB ARC is equal to the normal cost each year plus a closed period amortization of the unfunded actuarial liability. Based on the actuarial valuation of the District's OPEB plan as of June 30, 2011, the OPEB ARC for Fiscal Year 2014 is approximately \$14,065,000. An updated OPEB valuation was prepared as of June 30, 2013, in accordance with GASB Statement No. 45, reflecting an OPEB ARC of \$8,469,000 for Fiscal Year 2014. Such updated OPEB valuation was used for reporting OPEB information in the District's financial statements for Fiscal Year 2014.

The District is not required to fund, and until recently has not funded, the amortization of the unfunded actuarial liability. The District's historic policy has been to pay for the OPEB plans' costs as they are incurred.

However, on April 18, 2012, the Board approved the establishment of an irrevocable OPEB trust (the "OPEB Trust") and approved and authorized an agreement with CalPERS to administer the OPEB Trust on its behalf. The District established the OPEB Trust in Fiscal Year 2013 and made initial contributions to the OPEB Trust of approximately \$2,500,000. At the time the OPEB Trust was established, the District planned to contribute an amount approximately equal to 10% of the share of the 1% Riverside County general property tax levy that the District receives annually. See the caption "—Non-Operating Revenues—Taxes." The District estimates that the establishment of the OPEB Trust and pre-funding of the liability will significantly reduce the District's unfunded OPEB obligation. Based on the June 30, 2014 actuarial valuation, the actuarial unfunded liability of the District's OPEB plan was approximately \$86,104,000. So long as the annual OPEB cost contributed by the District is less than the OPEB ARC, District contributions to the OPEB Trust will be considered Maintenance and Operation Costs. See the caption "PROJECTED OPERATING RESULTS" for projected contributions to the OPEB trust for the current and next four Fiscal Years.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last five Fiscal Years was as follows:

| <i>Fiscal Year</i> | <i>Annual OPEB Cost</i> ⁽¹⁾ | <i>Annual OPEB Cost Contributed</i> | <i>Net OPEB Obligation</i> ⁽²⁾ |
|--------------------|--|-------------------------------------|---|
| 2010 | \$11,137,000 | \$2,005,343 | \$22,416,078 |
| 2011 | 11,505,000 | 2,256,318 | 31,596,760 |
| 2012 | 15,286,000 | 2,788,000 | 44,191,171 |
| 2013 | 11,852,000 | 5,740,000 | 50,212,171 |
| 2014 | 8,469,000 | 6,123,000 | 52,339,036 |

⁽¹⁾ Equal to the OPEB ARC.

⁽²⁾ See Note 9 in Appendix B for a description of the calculation of the net OPEB obligation.

In October 2013, the District adopted a set of policy principles regarding its OPEB benefits and funding strategies, including, among others, the following:

- The District will continue to set minimum annual contributions to the OPEB Trust at a level equivalent to 10% of annual property tax receipts plus “pay-as-you-go” for retiree medical premiums.
- The District intends to achieve “full funding” of its OPEB benefits within 20 years, or by Fiscal Year 2033-34. Full funding is defined as funding 90% of the accrued liability on an actuarial basis.
- The District intends to fully fund the actuarially determined OPEB ARC within 10 years, or by Fiscal Year 2023-24.
- The District will adopt a second tier of benefits for future-hired employees based upon a maximum District contribution of the CalPERS-defined minimum monthly contribution provided for under the Public Employees Medical and Hospital Care Act, which is set at \$119 per month for 2014, and generally indexed by CalPERS annually to the Consumer Price Index.
- The District will continue to use appropriate assumptions in its assumed rates of return, rates of medical inflation, retirement ages and mortality tables in consultation with its professional actuaries.
- The District will consider using one-time gains in net operating margin to make additional contributions to the OPEB Trust to reduce the liability sooner and potentially achieve its funding goal sooner than Fiscal Year 2033-34.
- If necessary to achieve the funding goals noted above, the District will consider other funding sources including, but not limited to, a rate component, and employee and/or retiree contributions.
- The District will formally re-evaluate funding strategies at least biennially, coincident with required actuarial valuations.

In furtherance of the above policy principles, the District implemented the new tier of benefits for employees hired on or after March 26, 2014. Based upon an actuarial study performed by Bartel & Associates, the expected present value savings associated with the implementation of significantly reduced benefits for future-hired employees exceeds \$100 million. On September 17, 2014, the Board approved a one-time contribution of \$2,000,000 into the OPEB Trust in addition to the Fiscal Year 2015 budgeted contribution of \$6,842,531. Including the additional \$2,000,000 contribution, the District paid more than its actuarially determined OPEB ARC for Fiscal Year 2015.

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 the District's financial statements set forth in Appendix B, presents multi-year trend information about whether the actuarial value of OPEB plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are described in detail in Note 9 to Appendix B.

District Reserves

See the caption "THE DISTRICT—District Reserve Policy" for information with respect to the District's liquidity position.

HISTORICAL OPERATING RESULTS

The following table summarizes the District's operating revenues, operating expenses and changes in net assets for the last five Fiscal Years. The operating revenues, operating expenses and changes in net assets in each of such Fiscal Years shown are derived from unaudited actual Fiscal Year 2014 results and the audited financial statements of the District for prior years. The audited financial statements of the District for Fiscal Year 2014 and the report thereon of Mayer Hoffman McCann P.C. (the "Auditor") are included as Appendix B to the Official Statement. The following table is derived from such audited financial statements and the audited financial statements for prior Fiscal Years, including the notes contained therein, and should be read in conjunction with discussion below the table. The summary operating results contained in the below table exclude certain non-cash items and reflect certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of the Official Statement.

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TABLE 19
EASTERN MUNICIPAL WATER DISTRICT
Historical Operating Results
Summary of Modified Revenues and Expenses

| | <i>Fiscal Year 2010</i> | <i>Fiscal Year 2011</i> | <i>Fiscal Year 2012</i> | <i>Fiscal Year 2013</i> | <i>Fiscal Year 2014</i> |
|---|-----------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|
| OPERATING REVENUES: | | | | | |
| Water Sales | \$ 102,747,031 | \$ 102,479,984 | \$ 104,741,242 | \$ 112,456,804 | \$ 122,724,175 |
| Sewer Service Charges | 61,885,298 | 62,840,013 | 65,983,462 | 68,957,128 | 73,100,086 |
| Recycled Water Sales | <u>4,052,665</u> | <u>4,504,923</u> | <u>5,135,186</u> | <u>5,676,043</u> | <u>6,125,420</u> |
| Total Operating Revenues | \$ 168,684,994 | \$ 169,824,920 | \$ 175,859,890 | \$ 187,089,975 | \$ 201,949,681 |
| OPERATING EXPENSES: | | | | | |
| Water purchases | \$ 46,936,179 | \$ 46,489,850 | \$ 52,697,993 ⁽²⁾ | \$ 58,445,847 ⁽²⁾ | \$ 63,850,688 ⁽²⁾ |
| Water operations | 39,967,447 | 41,364,910 | 40,789,231 | 40,994,915 | 44,193,507 |
| Sewer operations | 45,123,786 | 47,351,385 | 47,057,011 | 46,271,994 | 48,703,113 |
| OPEB Trust ⁽¹⁾ | - | - | 2,620,589 | 5,740,000 | 6,123,000 |
| General and administrative | <u>30,256,670</u> | <u>26,707,578</u> | <u>27,112,598</u> | <u>28,392,519</u> | <u>28,352,049</u> |
| Total Operating Expenses | \$ 162,284,082 | \$ 161,913,723 | \$ 170,277,422 | \$ 179,845,275 | \$ 191,222,357 |
| OPERATING INCOME (LOSS) | \$ 6,400,912 | \$ 7,911,197 | \$ 5,582,468 | \$ 7,244,700 | \$ 10,727,324 |
| NON-OPERATING REVENUES: | | | | | |
| Property taxes - General Purpose | \$ 29,474,227 | \$ 25,884,964 | \$ 26,574,300 | \$ 27,243,490 | \$ 28,061,489 |
| Standby charges | 5,246,008 | 5,569,818 | 5,600,661 | 5,635,153 | 5,700,591 |
| Wastewater connection fees | 8,474,729 | 7,176,760 | 8,730,097 | 14,679,805 | 21,162,000 |
| Water connection fees | 4,462,551 | 3,575,158 | 3,428,721 | 4,077,007 | 7,506,888 |
| Water supply development fee | 611,316 | 528,718 | 480,955 | 1,645,651 | 1,480,973 |
| Water and sewer frontage fees ⁽³⁾ | 73,648 | 63,376 | (7,992) | (38,278) | - |
| Interest income | 16,681,744 | 7,664,191 | 7,431,966 | 4,485,217 | 3,133,313 |
| Grants/Other Income/(Expenses) | <u>5,939,934</u> | <u>17,336,255</u> | <u>17,881,648</u> | <u>15,470,830</u> | <u>6,161,906</u> |
| Total Non-Operating Revenues | \$ 70,964,157 | \$ 67,799,240 | \$ 70,120,356 | \$ 73,198,875 | \$ 73,207,160 |
| NET WATER AND SEWER REVENUES FOR DEBT COVERAGE | \$ 77,365,069 | \$ 75,710,437 | \$ 75,702,824 | \$ 80,443,575 | \$ 83,934,484 |
| DEBT SERVICE: | | | | | |
| Parity Obligation Payments | \$ 32,958,765 | \$ 32,731,966 | \$ 37,044,680 | \$ 35,061,971 | \$ 35,521,108 |
| State Loan Debt Service Payments | <u>5,800,750</u> | <u>5,703,603</u> | <u>4,115,116</u> | <u>4,322,228</u> | <u>4,013,353</u> |
| Total Debt Service | \$ 38,759,515 | \$ 38,435,569 | \$ 41,159,796 | \$ 39,384,199 | \$ 39,534,461 |
| DEBT SERVICE COVERAGE | 2.0 x | 2.0 x | 1.8 x | 2.0 x | 2.1 x |
| EXCESS OF REVENUES OVER EXPENSES | \$ 38,605,554 | \$ 37,274,868 | \$ 34,543,028 | \$ 41,059,376 | \$ 44,400,023 |

⁽¹⁾ See the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits."

⁽²⁾ Increases in water purchase costs in Fiscal Years 2012 through 2014 reflect increased water sales and MWD rate increases. See Table 9 under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Production" and Table 5 under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California—MWD Revenues."

⁽³⁾ These fees were eliminated in Fiscal Year 2013.

Source: Eastern Municipal Water District.

The historical operating results of the District as presented in Appendix B reflect all sources of revenues and expenses from the District's audited financial statements, including general obligation-related revenues and expenses, depreciation, and other extraordinary book entries. In order to compare the projected operating results of the District set forth in Table 20 under the caption "PROJECTED OPERATING RESULTS" to the District's historical operating results set forth above in Table 19, a modified summary of revenues of expenses has been prepared. The following commentary is based on the modified summary.

The District's Net Water and Sewer Revenues include all gross income and revenue received or receivable by the District from its ownership and operation of the Water and Sewer System, including income derived from water and wastewater sales, sewer service charges, standby charges, water and sewer plant capacity charges, water and sewer back up charges, water and sewer frontage charges, water and sewer fees,

annexation charges and certain investment earnings. The District budgets each year those revenues which are driven by expected customer demands on the system as part of its “Operating Budget.” These revenues include water and wastewater sales, sewer service charges, standby charges, certain investment earnings and miscellaneous revenues derived from fees for service. These revenues are primarily used to pay for the Fiscal Year’s operating expenses, capital outlays and research, and support the CIP. The balance of the net water and sewer revenues, water and sewer plant capacity charges, water and sewer back up charges, water and sewer frontage charges, water and sewer fees and certain investment earnings are appropriated each year to the construction fund to finance a major portion of the CIP. With the exception of the investment earnings, these revenues are part of the District’s connection fee that is paid by the developer at the time arrangements are made with the District for water and/or sewer service. These revenues are reported as “Non-Operating” revenues and will have the biggest fluctuations from year to year due to being driven by economic conditions.

PROJECTED OPERATING RESULTS

The table of projected District revenues and expenses and debt service coverage for the current and next four Fiscal Years has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. This information has been provided for comparison purposes. The assumptions for operating revenue, operating expenses and debt service are material in the development of the District’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See Table 4 above under the caption “THE DISTRICT—Debt Structure of the District—Summary of Parity Obligation Debt Service” for a presentation of actual debt service with respect to outstanding Parity Obligations and Subordinate Obligations payable from Net Water and Sewer Revenues.

As discussed under the caption “WATER RESOURCES, FACILITIES AND USAGE—Drought Measures,” the California Governor has declared a drought state of emergency and the Governor and various State of California entities have issued orders and regulations in connection therewith. In response to such measures, the District will implement Stage 4A of its WSCP beginning on June 1, 2015. The below projections reflect reduced water supplies and sales as a result of the drought and the implementation of Stage 3A of the WSCP, which stage was in place prior to June 1, 2015, but do not reflect the implementation of Stage 4A of the WSCP. There can be no assurance that water supplies or sales will not differ materially from the below projections as a result of changes in hydrological conditions or the State of California or District response thereto in future years. The District does not believe that the implementation of Stage 4A of the WSCP will have a material adverse effect on its ability to generate sufficient Net Water and Sewer Revenues to pay the Installment Payments when due. See the Official Statement under the caption “SECURITY FOR THE 2015B BONDS—Installment Payments Payable from Net Revenues.” The District has covenanted to set rates and charges in amounts sufficient to pay the Installment Payments. See the Official Statement under the caption “SECURITY FOR THE 2015B BONDS—Rate Covenant.”

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TABLE 20
EASTERN MUNICIPAL WATER DISTRICT
Projected Operating Results
Summary of Modified Revenues and Expenses

| | <i>Fiscal Year 2015⁽¹⁾</i> | <i>Fiscal Year 2016</i> | <i>Fiscal Year 2017</i> | <i>Fiscal Year 2018</i> | <i>Fiscal Year 2019</i> |
|---|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| OPERATING REVENUES: | | | | | |
| Water Sales ⁽²⁾ | \$118,843,391 | \$126,375,890 | \$132,062,805 | \$138,005,632 | \$144,215,885 |
| Sewer Service Charges ⁽³⁾ | 76,176,793 | 82,940,102 | 89,453,592 | 94,833,497 | 100,326,850 |
| Recycled Water Sales ⁽⁴⁾ | <u>8,286,106</u> | <u>9,053,830</u> | <u>9,506,522</u> | <u>9,981,848</u> | <u>10,480,940</u> |
| Total Operating Revenues | \$203,306,290 | \$218,369,822 | \$231,022,919 | \$242,820,977 | \$255,023,675 |
| OPERATING EXPENSES: | | | | | |
| Water purchases ⁽⁵⁾ | \$ 61,486,807 | \$ 61,376,880 | \$ 63,525,071 | \$ 65,748,449 | \$ 68,049,644 |
| Water operations ⁽⁶⁾ | 47,253,577 | 47,866,166 | 51,239,341 | 53,426,039 | 55,625,900 |
| Sewer operations ⁽⁷⁾ | 50,928,111 | 53,497,891 | 54,942,334 | 56,425,777 | 57,949,273 |
| OPEB Trust ⁽⁸⁾ | 8,842,531 | 8,553,164 | 10,691,455 | 12,295,173 | 13,524,691 |
| General and administrative ⁽⁹⁾ | <u>29,620,115</u> | <u>31,709,786</u> | <u>32,660,941</u> | <u>33,640,769</u> | <u>34,649,992</u> |
| Total Operating Expenses | \$198,131,141 | \$203,003,887 | \$213,059,142 | \$221,536,207 | \$229,799,500 |
| OPERATING INCOME (LOSS) | \$ 5,175,149 | \$ 15,365,935 | \$ 17,963,777 | \$ 21,284,770 | \$ 25,224,175 |
| NON-OPERATING REVENUES: | | | | | |
| Property taxes - General Purpose ⁽¹⁰⁾ | \$ 27,785,053 | \$ 28,340,757 | \$ 28,907,570 | \$ 29,485,722 | \$ 30,075,436 |
| Standby charges ⁽¹¹⁾ | 5,670,000 | 5,726,700 | 5,783,967 | 5,841,807 | 5,900,225 |
| Wastewater connection fees ⁽¹²⁾ | 15,599,649 | 28,596,867 | 30,951,196 | 33,346,824 | 35,768,234 |
| Water connection fees ⁽¹³⁾ | 8,235,640 | 12,439,825 | 13,462,350 | 14,508,875 | 15,559,544 |
| Water supply development fee ⁽¹⁴⁾ | 526,800 | 772,500 | 811,800 | 849,300 | 884,400 |
| Interest income ⁽¹⁵⁾ | 2,850,000 | 2,260,844 | 5,091,670 | 7,539,481 | 8,507,288 |
| Grants/Other Income/(Expenses) ⁽¹⁶⁾ | <u>6,500,000</u> | <u>4,642,000</u> | <u>4,642,000</u> | <u>4,642,000</u> | <u>4,642,000</u> |
| Total Non-Operating Revenues | \$ 67,167,142 | \$ 82,779,493 | \$ 89,650,553 | \$ 96,214,009 | \$101,337,127 |
| NET WATER AND SEWER REVENUES FOR DEBT COVERAGE ⁽¹⁷⁾ | \$ 72,342,291 | \$ 98,145,428 | \$107,614,330 | \$117,498,779 | \$126,561,302 |
| PARITY OBLIGATION DEBT SERVICE: | | | | | |
| Parity Obligation Payments ⁽¹⁸⁾ | \$ 30,691,680 | \$ 30,733,474 | \$ 31,743,317 | \$ 27,764,192 | \$ 27,377,842 |
| State Loan Debt Service Payments ⁽¹⁹⁾ | <u>8,134,314</u> | <u>8,134,315</u> | <u>18,078,596</u> | <u>18,078,596</u> | <u>18,078,596</u> |
| Total Parity Obligation Debt Service | \$ 38,825,994 | \$ 38,867,789 | \$ 49,821,913 | \$ 45,842,788 | \$ 45,456,438 |
| PARITY OBLIGATION DEBT SERVICE COVERAGE ⁽²⁰⁾ | 1.9 x | 2.5 x | 2.2 x | 2.6 x | 2.8 x |
| REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS ⁽²¹⁾ | \$ 33,516,297 | \$ 59,277,639 | \$ 57,792,417 | \$ 71,655,991 | \$ 81,104,864 |
| SUBORDINATE OBLIGATION DEBT SERVICE | | | | | |
| 2014A Bonds ⁽²²⁾ | \$ 608,063 | \$ 851,288 | \$ 1,216,125 | \$ 1,459,350 | \$ 1,459,350 |
| 2014B Bonds ⁽²³⁾ | 564,688 | 790,563 | 1,129,375 | 1,355,250 | 1,355,250 |
| 2014C Bonds ⁽²⁴⁾ | 1,993,477 | 1,994,048 | 1,989,451 | 1,999,273 | 1,993,900 |
| 2015A Bonds ⁽²⁵⁾ | - | 586,806 | 875,000 | 1,125,000 | 1,500,000 |
| 2015B Bonds | - | 1,900,621 | 3,545,200 | 3,545,200 | 3,545,200 |
| Additional New Money Financings ⁽²⁶⁾ | <u>-</u> | <u>-</u> | <u>1,000,000</u> | <u>2,000,000</u> | <u>2,000,000</u> |
| Total Subordinate Obligation Debt Service | \$ 3,166,228 | \$ 6,123,326 | \$ 9,755,151 | \$ 11,484,073 | \$ 11,853,700 |
| SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE ⁽²⁷⁾ | 10.6 x | 9.7 x | 5.9 x | 6.2 x | 6.8 x |
| REMAINING REVENUES ⁽²⁸⁾ | \$ 30,350,069 | \$ 53,154,313 | \$ 48,037,266 | \$ 60,171,918 | \$ 69,251,164 |
| TOTAL DEBT SERVICE ⁽²⁹⁾ | \$ 41,992,222 | \$ 44,991,115 | \$ 59,577,064 | \$ 57,326,861 | \$ 57,310,138 |
| ALL-IN DEBT SERVICE COVERAGE ⁽³⁰⁾ | 1.7 x | 2.2 x | 1.8 x | 2.0 x | 2.2 x |

(FOOTNOTES ON FOLLOWING PAGE)

- (1) Reflects Fiscal Year 2015 budgeted amounts with certain adjustments.
- (2) Reflects reductions in water sales resulting from District response to drought conditions. See the caption “WATER RESOURCES, FACILITIES AND USAGE—Drought Measures.” Based on District projections of increases in connections, approved rate increases of an average of approximately 3.8% effective January 1, 2015 and January 1, 2016 and projected rate increases of approximately 4.5% per annum thereafter. Also reflects \$1.75 monthly Water Reliability Capital Charge beginning January 1, 2015, increasing to \$2.25 monthly beginning January 1, 2016 to offset MWD’s water rates and rising energy and labor costs. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Water sales projected at approximately 85,000 acre feet per year. Increases in rates and charges are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (3) Based on District projections of increases in connections, adopted rate increases of approximately 4.5% effective July 1, 2015 and projected rate increases of approximately 5% per annum thereafter to cover energy, labor and other operational costs. Also reflects \$1.50 monthly Sewer Capital Charge beginning July 1, 2016, increasing to \$2.00 monthly beginning July 1, 2017. See the captions “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Increases in rates and charges are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (4) Based on District projections of increases in connections and projected rate increases of 10% per annum in Fiscal Year 2016 and 5% per annum thereafter. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (5) Based on District projections. Reflects reductions in water purchases resulting from District response to drought conditions. See the caption “WATER RESOURCES, FACILITIES AND USAGE—Drought Measures.” Also reflects MWD rates set forth in Table 5 under the caption “WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California.” Does not include costs associated with water purchases for groundwater recharge purposes under the Settlement Act as described under the caption “WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Soboba Settlement Agreement.” Assumes potable water supply mix of 73% imported water, or approximately 72,000 acre feet and 67,000 acre feet in Fiscal Years 2015 and 2016, respectively.
- (6) Based on District projections. In Fiscal Year 2015, water operating costs are projected to increase by approximately 7%, reflecting projected increases in energy and chemical costs.
- (7) Projected to increase by approximately 5% per annum in Fiscal Years 2015 and 2016, reflecting projected increases in energy and chemical costs, and approximately 2.7% per annum thereafter.
- (8) Reflects projected deposits to OPEB Trust described under the caption “HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits.” Reflects \$2,000,000 contribution to OPEB Trust in September 2014.
- (9) Projected to increase approximately 4.5% in Fiscal Year 2015, approximately 7% in Fiscal Year 2016 and approximately 3% per annum thereafter. Increases reflect projections of higher wages and benefits due to contractual obligations.
- (10) Fiscal Year 2015 amount based on adopted budget. Projected to increase approximately 2% per annum thereafter, reflecting increased assessed values in the District service area and additional taxes received as a result of the dissolution of redevelopment agencies in the State of California and the concomitant elimination of certain tax increment sharing obligations. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Taxes.”
- (11) Projected to decrease slightly from Fiscal Year 2014 amount in Fiscal Year 2015 and to increase approximately 1% per annum thereafter. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Standby (Availability) Charges.”
- (12) One-time charge revenues received from developers used to finance wastewater treatment plant facility expansions, transmission mains, sewer lift stations and disposal facilities. Reflects District projections of development within the District. Sewer EDUs are projected to increase from 2,067 in Fiscal Year 2015 to 4,211 in Fiscal Year 2019. The proposed rates over the forecast period range from \$7,547 per EDU in Fiscal Year 2015 to \$8,494 per EDU in Fiscal Year 2019. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (13) One-time charge revenues received from developers used to finance water treatment plant facility expansions, distribution mains, water pumping plants, wells and storage tanks. Reflects District projections of development within the District. Water EMSes are projected to increase from 1,756 in Fiscal Year 2015 to 2,948 in Fiscal Year 2019. The proposed rates over the forecast period range from \$4,690 in Fiscal Year 2015 to \$5,278 in Fiscal Year 2019. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (14) Established in 2004 at \$300 per connection. Proceeds support projects that will provide for improved utilization of the District’s available resources. Projected to remain at \$300 over the forecast period. Projected revenue is based on the projected water EMSes described in Footnote 13.
- (15) As of June 30, 2014, the District had approximately \$309,100,000 in available cash reserves, representing approximately 590 days cash on hand. The District’s total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$401,000,000 and is invested in various securities with an average yield of approximately 0.96% as of June 30, 2014. See the caption “THE DISTRICT—District Reserve Policy.”
- (16) Includes delinquency charges, industrial permitting, meter rentals, plan checks and other miscellaneous revenues, which are projected to remain stable, plus grant revenues, less disposal of plant assets, abandonments, bad debt expense, special studies and miscellaneous interest expenses. Net other income is projected to remain stable at approximately \$4,642,000 per annum.
- (17) Operating Income (Loss) plus Total Non-Operating Revenues.
- (18) See the caption “THE DISTRICT—Debt Structure of the District.” Variable rates of interest over the forecast period are assumed at 1.25%, 1.75%, 1. 2.50%, 3.00% and 3.00% for Fiscal Years 2015 through 2019, respectively. Excludes debt service on the 2008G Certificates, which are expected to be prepaid from proceeds of the 2015A Bonds in or about late June 2015, as described in the Official Statement under the caption “INTRODUCTION.”

(Footnotes Continued on Following Page)

(Continued from Previous Page)

- ⁽¹⁹⁾ Includes the projected debt service on new State Loans that have been executed but will not begin to be repaid until Fiscal Years 2016 and 2017, respectively. See the caption “THE DISTRICT—Debt Structure of the District—State Loans.”
- ⁽²⁰⁾ Net Water and Sewer Revenues for Debt Coverage divided by Total Parity Obligation Debt Service.
- ⁽²¹⁾ Net Water and Sewer Revenues for Debt Coverage minus Total Parity Obligation Debt Service.
- ⁽²²⁾ Reflects debt service on the 2014A Bonds at projected interest rates of 1.25%, 1.75%, 2.50%, 3.00% and 3.00% for Fiscal Years 2015 through 2019, respectively. Differs from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions.
- ⁽²³⁾ Reflects debt service on the 2014B Bonds at projected interest rates of 1.25%, 1.75%, 2.50%, 3.00% and 3.00% for Fiscal Years 2015 through 2019, respectively. Differs from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions.
- ⁽²⁴⁾ Reflects debt service on the 2014C Bonds at a projected interest rate of 3.10% per annum.
- ⁽²⁵⁾ Reflects issuance of the 2015A Bonds in or about late June 2015 in the aggregate principal amount of \$50,000,000. See the Official Statement under the caption “INTRODUCTION.” Reflects debt service on the 2015A Bonds at projected interest rates of 1.25%, 1.75%, 2.50%, 3.00% and 3.00% for Fiscal Years 2015 through 2019, respectively. Differs from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions. There can be no assurance that the 2015A Bonds will be issued as currently contemplated.
- ⁽²⁶⁾ Reflects projected issuance of additional obligations in the approximate aggregate principal amount of \$40,000,000 in Fiscal Year 2016 to finance capital improvements. See the caption “THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvements.” There can be no assurance that such obligations will be issued, or that the debt service with respect to such obligations will be in the amounts set forth herein.
- ⁽²⁷⁾ Revenues Available for Subordinate Obligations divided by Total Subordinate Obligation Debt Service.
- ⁽²⁸⁾ Revenues Available for Subordinate Obligations minus Total Subordinate Obligation Debt Service.
- ⁽²⁹⁾ Total Parity Obligation Debt Service plus Total Subordinate Obligation Debt Service.
- ⁽³⁰⁾ Net Water and Sewer Revenues for Debt Coverage divided by Total Debt Service.

Source: Eastern Municipal Water District.

APPENDIX B
DISTRICT FINANCIAL STATEMENTS

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Eastern Municipal Water District



Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2014

Perris, California
www.emwd.org



EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

PREPARED BY THE FINANCE DEPARTMENT

Introductory Section

Water Service

The District's strategic goal is to provide a safe and reliable water supply portfolio that achieves an optimum balance of imported, local, and recycled water at a reasonable cost.



Potable Water System

| | |
|---|---------|
| Miles of pipeline | 2,448 |
| Number of storage tanks | 77 |
| Active number of pumping plants | 83 |
| Active wells (domestic) | 18 |
| Active wells (desalter) | 11 |
| Domestic well production capacity (mgd) | 34 |
| Total acre feet per year (includes purchased water) | 101,485 |
| Brackish groundwater desalters | 2 |
| Potable water filtration plants | 2 |



EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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EASTERN MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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Board of Directors

October 31, 2014

President

Philip E. Paule

Board of Directors
Eastern Municipal Water District

Vice President

Randy A. Record

Joseph J. Kuebler, CPA

David J. Slawson

Ronald W. Sullivan

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

General Manager

Paul D. Jones II, P.E.

Treasurer

Joseph J. Kuebler, CPA

**Chairman of the
Metropolitan Water
District of So. Calif.**

Randy A. Record

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

**Board Secretary and
Assistant to the
General Manager**

Rosemarie V. Howard

Mayer Hoffman McCann P.C., a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the District's financial statements for the year ended June 30, 2014. The independent auditors' report is presented as the first component of the financial section of this report.

Legal Counsel

Lemieux & O'Neill

Included are all disclosures management believes necessary to enhance your understanding of the financial condition of the District. Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors in the financial section of this report.

Profile of the District

The District was organized under the Municipal Water District Act of 1911 (California Water Code Section 71000, et seq.) on October 16, 1950 for the primary purpose of importing Colorado River water to its service area to augment local water supplies. Prior to the District's formation, the local water supply was primarily from groundwater wells.

In 1962, the District began providing wastewater treatment services to customers within its service area, and as a consequence, has become actively involved in the production of recycled water (i.e., wastewater that has been treated to a level acceptable for non-domestic purposes).

The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

Service Area

The District is located in southern California and its service area lies within the westerly third of Riverside County, encompassing approximately 352,000 acres (555 square miles). The map to the right indicates the location of the District's service area in southern California. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$53.5 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.



Riverside County's population increased to approximately 2.3 million as of January 2013. Of this population, the District serves approximately 785,000 (34 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County.

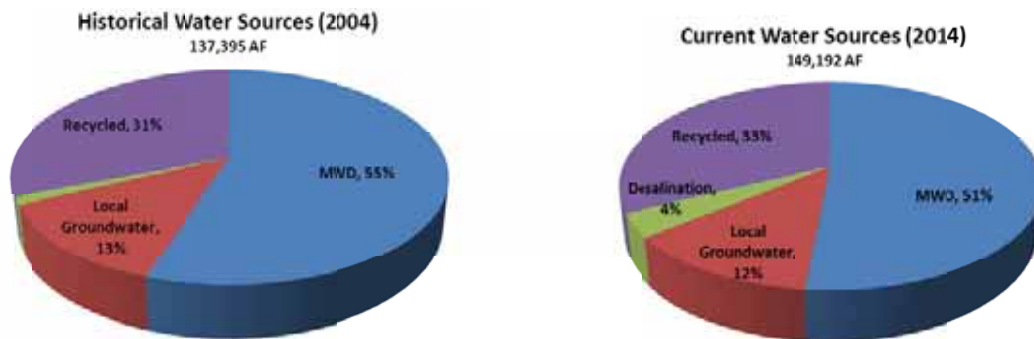
Governance

The District is governed by a Board of five directors, who are elected by the public for four-year terms from comparably sized districts based on population. The District is a member of the MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported water to arid southern California. The District is currently entitled to have one representative on the MWD Board. That representative, Randy Record, was elected to serve as the Chairman of the MWD Board through 2016.

Water Supply and Reliability

The District's water supply for the fiscal year ended June 30, 2014 includes local groundwater (16 percent), imported water (51 percent) and recycled water (33 percent). The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2004, the District received 55 percent of its water through purchases from MWD, which in turn obtains its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct, and the State Water Project via the Edmund G. Brown California Aqueduct. By 2014, the District reduced the level of imported water to 51 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



Sewer and Recycled Water Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRf), for which costs and methods of treatment vary. The facilities are capable of treating 68 million gallons per day (MGD) of wastewater and serve approximately 785,000 people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to future infrastructure replacement costs. They are linked to a network of 1,780 miles of pipeline and 48 active lift stations.

The District currently generates approximately 45 MGD of effluent at its regional water reclamation facilities, which is expected to grow to 48 MGD by the year 2017. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use local groundwater supply. In Fiscal Year 2014, 100 percent of the total recycled water produced which was available for sale (approximately 37,467 acre feet) was sold to customers.

Information Useful in Assessing Economic Condition

Local Economy

The District is located within Riverside County in a metropolitan area referred to as the “Inland Empire”. The District’s population has grown by nearly 45% since 2000 and experienced modest new connections during the national economic downturn. Although the state and local economy face various economic challenges, several regions and industries within the District’s service area have rebounded in 2014.

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/Long Beach complex, Los Angeles International Airport, Ontario International Airport, and Port of San Diego. Additionally, the March Air Reserve Base (March ARB), a 12 square-mile airfield and logistic center, is located in the District. In 2014, more than one in four new jobs created in the region were in the logistics industry. Also in 2014, online retailer Amazon.com occupied a new 1.2 million square-foot fulfillment center near March ARB in Moreno Valley and created more than 1,000 full-time jobs.

The region is served by several medical centers and research universities. In 2013, University of California, Riverside (UCR) began enrollment in the first new UC medical school program in four decades. In addition, Kaiser Permanente announced plans to develop a 900,000 square-foot hospital in Murrieta, which follows the opening of Loma Linda University, a 256,000 square-foot hospital with 106 beds that also opened in Murrieta in 2011.

Sound Financial Policies

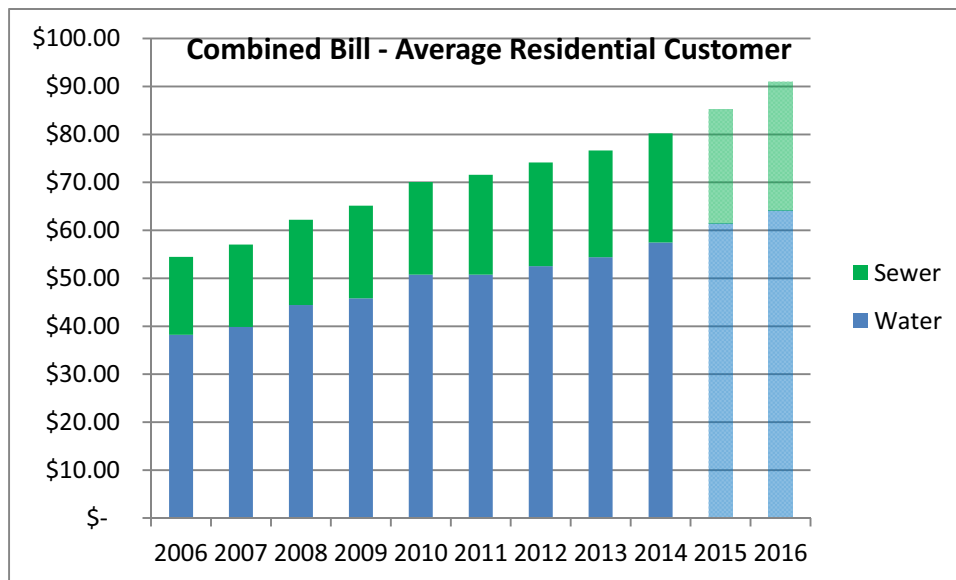
The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

In 2009, the District implemented a water budget-based tiered rate structure for water sales. This structure rewards customers who use water efficiently and to discourages those who waste water. In 2013, the District implemented a sewer rate structure based on the number of people occupying a property. For example, households with fewer than 3 people are charged 25 percent less than homes with 3 or 4 people. Conversely, homes with 5 or 6 people are charged 25 percent more than homes with 3 or 4 people.

In 2014, the District adopted rate increases effective in 2014 and 2015 along with a separate capital charges for water and sewer services to fund water supply reliability and capital replacement projects.

The District has implemented rate increases when necessary to fund its operations and finance critical infrastructure projects. The chart below reflects the monthly charges for an average residential customer with a household of 4 people in the District's service area:



Financial Planning

The Board approves a biennial budget as a management tool. The biennial budget is developed with input from the various departments within the organization and adopted prior to the start of each fiscal year. Monthly comparison reports of budget to actual are prepared, and quarterly budget-to-actual results by system are provided to and discussed with the Board, along with financial position and other key performance information.

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenses for water, sewer and recycled water facilities of approximately \$487 million for the period from 2015 through 2019. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates and charges, publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

Reserves Policy

The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District to access the lowest cost-of-capital borrowing opportunities.

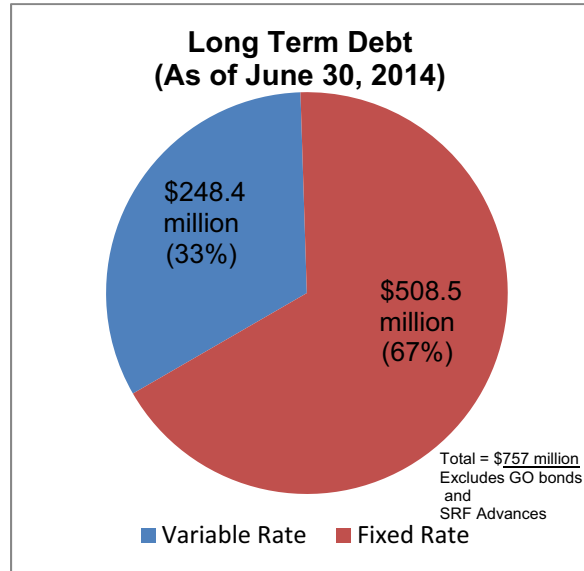
Administrative Code and Investment Policy

In 2013, the Board of Directors adopted an Administrative Code, which incorporates various policies and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. The District invests its funds in instruments

permitted by California Government Code Sections 53601, et seq., and in accordance with its Investment Policy. The investment objectives of the District are to first preserve capital, followed by maintaining liquidity, and finally, maximizing the rate of return without compromising the first two objectives.

Debt Administration

The District actively manages its debt portfolio, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and has borrowed from state revolving fund (SRF) loans to fund its CIP. As of June 30, 2014, the District's total COPs, Bonds, and SRF loans outstanding, excluding the San Jacinto Z LLC loan, debt premiums and SRF construction advances, was \$757 million, of which 67 percent were fixed interest rate and 33 percent were variable interest rate, with a weighted average cost of funds of 2.87 percent.



The District restructured the 2008C COP and refunded the 2008E COP with the issuance of subordinate 2014A Refunding Revenue Bonds. The results of this restructuring and refunding resulted in lower annual debt service from 2015 through 2024, a new working lien to fund future capital projects, and the release of restricted reserve funds to fund capital projects.

The District's long-term parity debt are rated AA+, Aa2, AA and the subordinate 2014A Bonds are rated AA, Aa3, AA- by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively, as of June 30, 2014.

Major Initiatives

Water Supply Development and Management

Future growth within the District's service area will increase demands for sustainable local water supplies. The District is implementing plans to increase local groundwater yields by identifying useable groundwater that is currently underutilized, determining geohydrological and water quality parameters, and developing integrated groundwater management strategies and the facilities necessary for optimal use.

- *Groundwater Management* – As part of the Integrated Recharge and Recovery Program, the District implemented a cooperative groundwater management plan for the Hemet and San Jacinto basins. The plan will help to increase the District's ability to sustain local groundwater production and provide for the protection and enhancement of the water quality of the basins. In support of this plan, the District completed construction and replacement of various facilities, including pipelines, booster stations, wells, pumps, and recharge ponds.

-
- *Brackish Groundwater Desalination* – The District has constructed two desalters with a combined annual capacity of 9,600-acre feet. A third desalter is in the final design phase and will expand the desalination program capacity to 15,000-acre feet per year. In addition, the District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants, as well as reduce brine disposal costs.
 - *Recycled Water* – The District has identified recycled water as a separate product line with a strategic objective to utilize one hundred (100) percent of treated effluent water from its wastewater reclamation plants. System infrastructure was expanded with the addition of recycled water storage tanks, ponds, pumps booster stations and pipelines. The FY 2013-14 Recycled Water System Management Plan includes both demand management and shortage contingency elements and identifies available supplies, demands, system capacity challenges, user allocations, modifications to user agreements, demand management requirements and shortage contingency plans. This plan is being used to identify and document the preferred strategy for the effective operation and management of the recycled water system. Recycled water sales were 100 percent of available supply in fiscal year 2013-14.
 - *Water Shortage Contingency Plan* – In January 2014, the Governor declared a drought state of emergency; encouraged local suppliers to reduce usage by 20 percent, and have local suppliers develop or update water contingency plans. The District amended its water shortage contingency plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP includes five stages, with the first 2 stages being voluntary measures to encourage conservation. Stage 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use. The District is currently in a Stage 3a, which implements mandatory water use restrictions. MWD may reduce the amount of water available to the District in 2015, which could trigger a further move into Stage 3b or beyond.

Operational Efficiencies

The District continues to focus its efforts in areas that will increase efficiency, improve service, and reduce costs. It has made considerable progress in organizational efficiency and effectiveness through several recent initiatives and cost-saving measures:

- A new long-term financial plan (LTFP) to forecast financing requirements and funding sources was developed and presented to the Board. The results of the LTFP were used to develop the inaugural Biennial Budget for FY 2014-15 and FY 2015-16.
- As a strategy to decrease Other Post Employment Benefit (OPEB) unfunded liabilities, in July 2012 and July 2013, the District began funding future costs with initial \$2.5 and \$2.7 million deposits, respectively, to its trust account with the California Employer's Retiree Benefit Trust Program. During FY 2013-14, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles.
- The District implemented a debt portfolio optimization project which resulted in the restructuring of the 2008C COP and refund the 2008E COP with the 2014A subordinate bonds. These financings resulted in the reduction of annual debt service from 2015 through 2024, release of reserve funds to fund capital projects, and additional flexibility to fund future projects with the new working lien (subordinate lien).

-
- The District has made several streamlining efforts in reporting, such as implementing electronic distribution method of the reports and consolidation of its treasurer's report from a dozen portfolios to one.

Accounting Systems

The Finance Department is responsible for providing the financial services for the District, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching the revenues against the costs of providing the services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.

Internal Controls

The District's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District's assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with GAAP. Management follows the concept of reasonable assurance in recognizing that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments. The most recent audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.\

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the tenth consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance department. We wish to thank all departments for their assistance in providing the data necessary to prepare this report. We would also like to thank the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Paul D. Jones, II P.E.
General Manager



Deborah S. Cherney, CPA
Deputy General Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

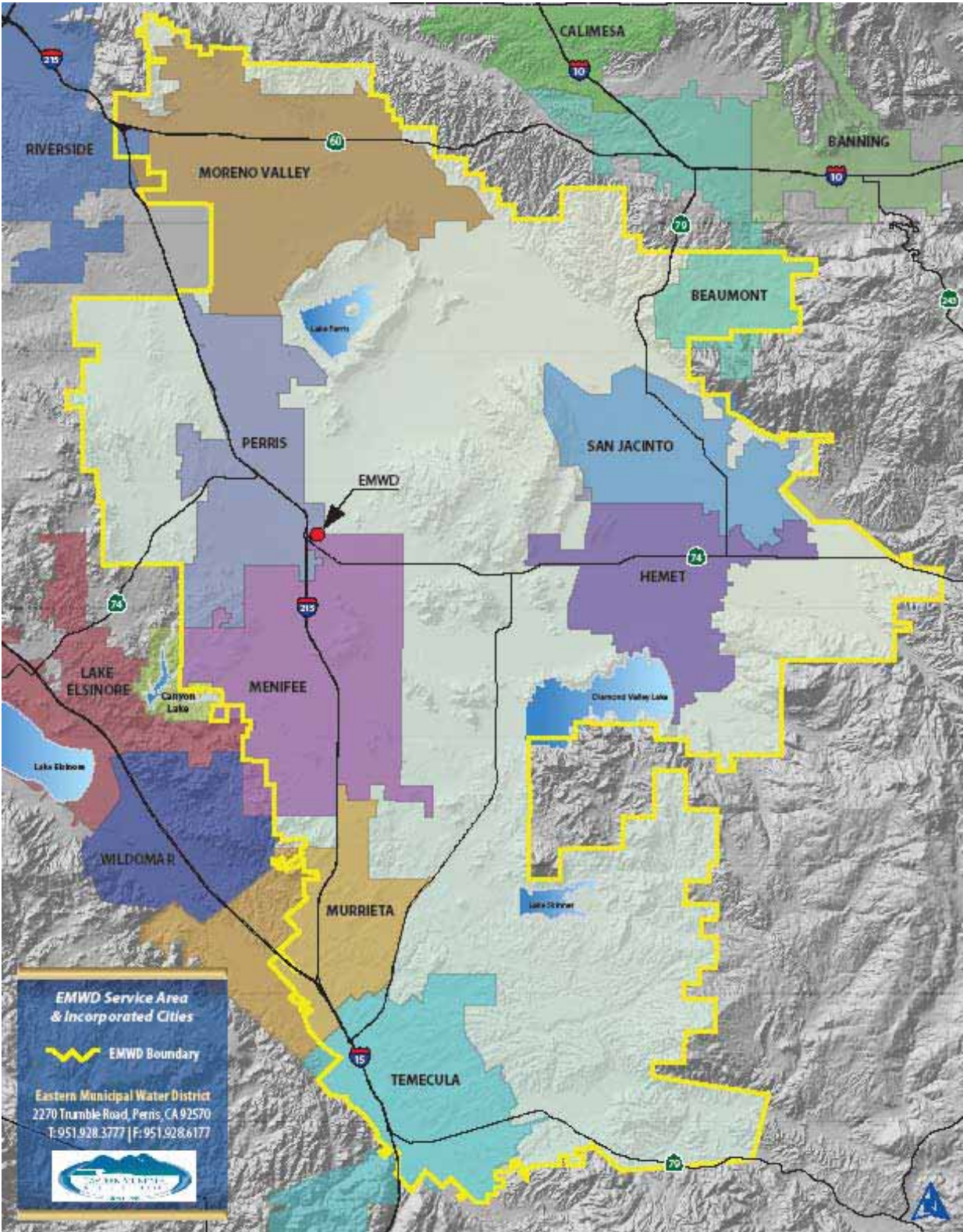
**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Service Area Map and Incorporated Cities



District Officials

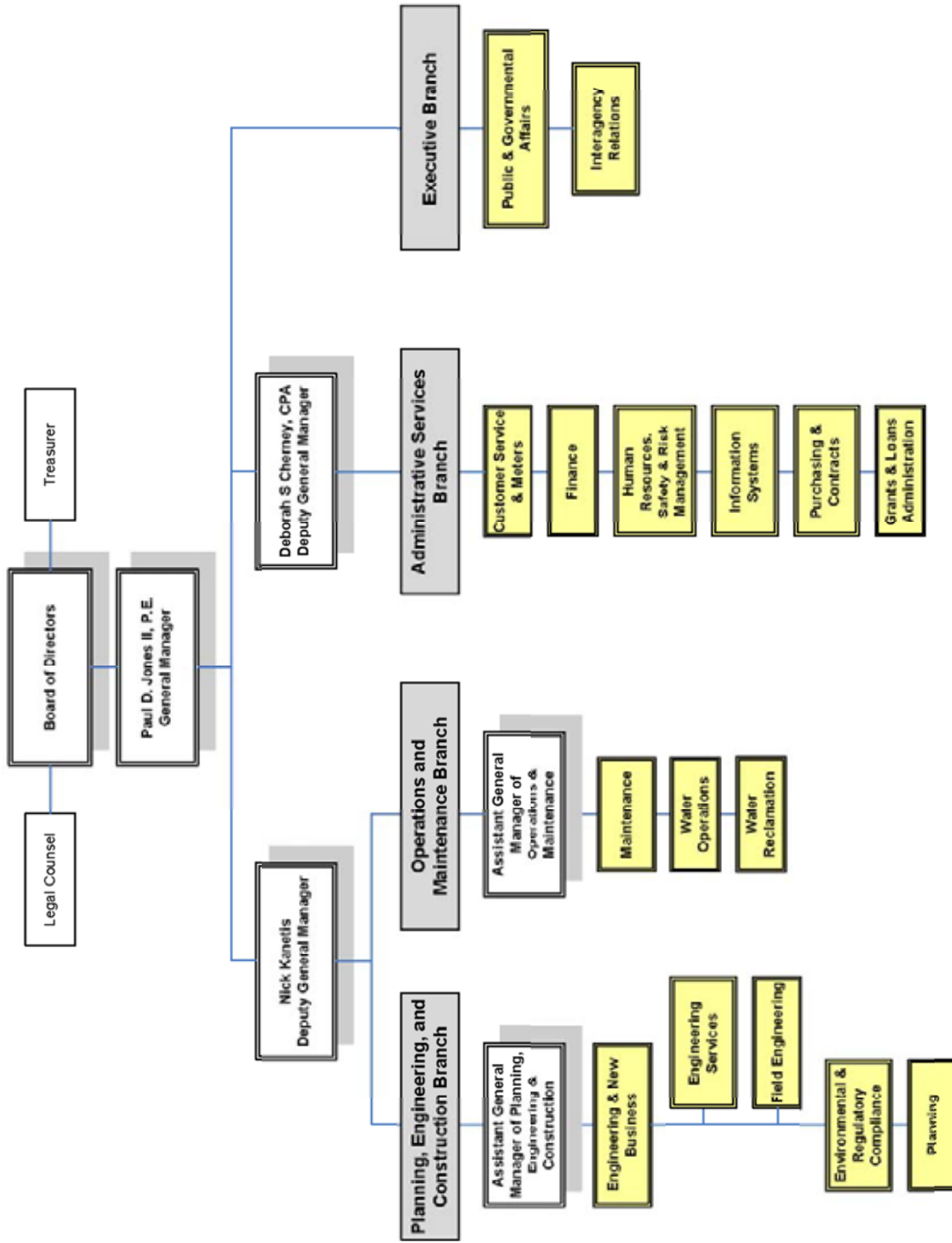
Elected Board of Directors

| <u>Position</u> | <u>Name</u> | <u>Elected</u> | <u>Current Term of Office</u> |
|--------------------|------------------------|----------------|-------------------------------|
| President | Philip E. Paule | 1/2007 | 1/2011 – 1/2019 |
| Vice President | Randy A. Record | 1/2001 | 1/2013 – 1/2017 |
| Director/Treasurer | Joseph J. Kuebler, CPA | 4/2006 | 1/2011 – 1/2019 |
| Director | David J. Slawson | 1/1995 | 1/2011 – 1/2015 |
| Director | Ronald W. Sullivan | 1/2003 | 1/2013 – 1/2017 |

District Management

| <u>Position</u> | <u>Name</u> |
|---|-------------------------|
| General Manager | Paul D. Jones II, P.E. |
| Deputy General Manager | Deborah S. Cherney, CPA |
| Deputy General Manager | Nick Kanetis |
| Assistant General Manager, Operations and Maintenance | Jeff Wall |
| Assistant General Manager, Planning, Engineering, and Construction | Charles J. Bachmann |

Eastern Municipal Water District Organizational Chart



Financial Section

Wastewater Service

The District's strategic goal is to provide a safe, reliable, and cost-effective collection and treatment of wastewater and beneficial reuse of biosolids.



Sewer System

| | |
|---------------------------------|---------|
| Miles of sewer lines | 1,799 |
| Treatment plants | 5 |
| Active lift stations | 48 |
| Sewer service connections | 229,000 |
| Average design capacity | 68 mgd |
| Average treated per day | 45 mgd |



Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2014, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *schedules of funding progress* 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine California
October 31, 2014

Management's Discussion and Analysis

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District (District) for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

Operations

The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include: acquisition of water from the Metropolitan Water District of Southern California (MWD); production of groundwater; sale and delivery of water to domestic, agricultural and commercial accounts; collection, treatment and disposal of wastewater; sales and delivery of recycled water; and desalination of brackish groundwater. The District also owns and operates a fleet of vehicles and other rolling stock to support the various operating activities.

Basic Financial Statements

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position presents the financial position of the District at the end of the fiscal year. This statement provides information about the nature and amounts of assets, liabilities, and inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position accounts for the current year's revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The final required financial statement is the statement of cash flows. This statement provides relevant information about the District's cash receipts and cash payments and these are segregated among operating, capital and related financing, and investing activities.

The notes to the basic financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

Statement of Net Position June 30, 2014 and 2013

| | 2014 | 2013 | Increase/(Decrease) | |
|---|------------------------|------------------------|---------------------|-------------|
| | | | Amount | % |
| Assets | | | | |
| Current assets | \$272,505,718 | \$277,162,633 | (4,656,915) | -1.7 |
| Restricted assets | 203,743,540 | 217,399,965 | (13,656,425) | -6.3 |
| Net capital assets | 2,143,913,467 | 2,080,422,620 | 63,490,847 | 3.1 |
| Other assets | 3,498,232 | 4,029,180 | (530,948) | -13.2 |
| Total assets | 2,623,660,957 | 2,579,014,398 | 44,646,559 | 1.7 |
| Total deferred outflows of resources | 25,364,521 | 28,095,797 | (2,731,276) | -9.7 |
| Liabilities | | | | |
| Current liabilities | 87,630,416 | 85,287,301 | 2,343,115 | 2.7 |
| Other liabilities | 228,659,850 | 242,076,825 | (13,416,975) | -5.5 |
| Long-term debt outstanding | 782,163,286 | 761,836,872 | 20,326,414 | 2.7 |
| Total liabilities | 1,098,453,552 | 1,089,200,998 | 9,252,554 | 0.8 |
| Net position | | | | |
| Net investment in capital assets | 1,300,393,466 | 1,239,753,130 | 60,640,336 | 4.9 |
| Restricted | 115,824,667 | 129,643,479 | (13,818,812) | -10.7 |
| Unrestricted | 134,353,793 | 148,512,588 | (14,158,795) | -9.5 |
| Total net position | \$1,550,571,926 | \$1,517,909,197 | 32,662,729 | 2.2 |
| Ratio of liabilities to assets and deferred outflows of resources | 41% | 42% | | |

Changes in Financial Condition of the District

The ratio of liabilities to assets and deferred outflows of resources, which indicates the degree to which District assets are financed through borrowing and other obligations, had a minimal decrease from fiscal year 2013 to 2014 and net position increased modestly. The financial position of the District remained strong and steady, providing a foundation for future growth.

The following denotes explanations for some of the increases and decreases between fiscal years, as shown in the previous table.

- Current assets decreased by \$4.7 million due to decreases of \$2.2 million in non-restricted cash; \$2.2 million in other receivables; \$1.9 million in grants receivable; \$0.2 million in prepaid expenses; and \$0.19 million in water inventory. The decreases in other receivable are mainly due to the \$1.9 million decrease in receivable from other agencies for recharge water. The decrease in grants receivable is due to different grants being active each year and the timing of construction costs and reimbursements. The decreases are offset by increases in utility accounts receivable, net of allowances by \$1.4 million and accrued interest receivable by \$0.53 million.

-
- Restricted assets decreased by a net \$13.7 million due to decreases of \$1.4 million in construction cash used to finance District construction projects, and \$12.3 million in debt service cash due to the release of required reserves in remarketing of the 2008C and refunding of the 2008E COPs by the 2014A revenue bonds, and \$0.04 million in notes receivable; offset by an added \$0.06 million in property taxes receivable.
 - Net capital assets increased by a net \$63.5 million due to \$182.7 million of operating assets added to the system; added land of \$2.3 million; and added equipment and general facilities of \$4.9 million; offset by a decrease of \$45.1 million in construction in progress and additional accumulated depreciation totaling \$81.3 million.
 - Other assets decreased by \$0.53 million due to the amortization of net pension assets.
 - Deferred outflows of resources decreased \$2.7 million due to a decrease of \$1.4 million in the fair value of the District's two swap contracts. Both contracts were determined to be hedge effective for fiscal years 2014 and 2013. The remaining \$1.3 million decrease relates to the amortization of deferred charges on debt refunding.
 - Current liabilities increased by a net \$2.3 million due to an increase of \$3.6 million in accounts and other payables, accrued expenses, salaries and benefits; \$1.7 million in the current portion of compensated absences; \$1 million in advances from developers; and \$0.9 million in customer deposits. These increases were offset by decreases of \$4.1 million in current portion of long-term debt (which relates to the refunding of the 2008E COPs by the 2014A revenue bonds that reduces the debt service payments for the next ten years); and a net \$0.7 million in various other current liabilities.
 - Other noncurrent liabilities (noncurrent liabilities except for long term debt) decreased by \$13.4 million due to a net decrease of \$14.5 million in construction advances relating to SRF loan programs for the Acid Phase Anerobic Digester (APAD) project, and the San Jacinto Valley RWRf and Temecula Valley RWRf Expansion projects; a decrease of \$1.4 million in the fair value of swap contracts; and \$1.4 million in compensated absences and other accrued expenses. These decreases were offset by an increase of \$2.1 million in the net other postemployment benefits, and an increase of \$1.8 million in advances from developers.
 - Long-term debt outstanding increased by \$20.3 million due to the added \$43.9 million APAD State Revolving Fund loan and \$0.04 million capital lease obligation; offset by \$7.5 million, \$7.8 million, \$10.0 million and \$2.5 million in scheduled payments and amortized amounts that were recorded in the fiscal year ended June 30, 2014 for advances for construction, notes and assessments payable, revenue bonds, COPs and GO bonds, respectively. Furthermore the portion of long-term debt reported as current was decreased by \$4 million.
 - Net position increased by \$32.7 million; this increase is due to non-operating revenues of \$83.9 million that was offset by non-operating expenses of \$26.6 million; capital contributions from developers of \$44.6 million; and capital grants of \$4.2 million. The increases were offset by the losses from operations of \$73.5 million. Further information regarding restrictions and commitments associated with net position can be found in Notes 10 and 11 to the basic financial statements.

Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

| | 2014 | | 2013 | | Amount | % Change |
|--|----------------------|--------------|----------------------|--------------|--------------------|------------------|
| | Amount | % of Total | Amount | % of Total | | |
| Operating revenues: | | | | | | |
| Water sales - domestic | \$ 118,695,153 | 58.8 | \$ 110,468,194 | 59.0 | \$ 8,226,959 | 7.4 |
| Water sales - irrigation | 4,029,022 | 2.0 | 1,988,610 | 1.1 | 2,040,412 | 102.6 |
| Sewer service charge | 73,100,086 | 36.2 | 68,957,128 | 36.9 | 4,142,958 | 6.0 |
| Recycled water sales | 6,125,420 | 3.0 | 5,676,043 | 3.0 | 449,377 | 7.9 |
| Total operating revenues | <u>201,949,681</u> | <u>100.0</u> | <u>187,089,975</u> | <u>100.0</u> | <u>14,859,706</u> | <u>7.9</u> |
| Non-operating revenues (expenses): | | | | | | |
| Property taxes - general levy | 28,061,489 | 33.4 | 27,243,490 | 38.4 | 817,999 | 3.0 |
| Property taxes - general bond levy | 4,517,348 | 5.4 | 5,311,738 | 7.5 | (794,390) | -15.0 |
| Availability (standby) assessments | 5,700,591 | 6.8 | 5,635,153 | 7.9 | 65,438 | 1.2 |
| Water and sewer connection fees | 30,149,861 | 35.9 | 20,364,185 | 28.7 | 9,785,676 | 48.1 |
| Interest - operations and restricted funds | 3,133,313 | 3.7 | 4,485,217 | 6.3 | (1,351,904) | -30.1 |
| Net increase (decrease) in fair value of investments | 1,746,290 | 2.1 | (3,694,351) | (5.2) | 5,440,641 | -147.3 |
| Interest - general obligation bond funds | 43,980 | 0.1 | 41,069 | 0.1 | 2,911 | 7.1 |
| Grant revenues | 969,474 | 1.2 | 2,052,613 | 2.9 | (1,083,139) | -52.8 |
| Other revenues | 9,568,311 | 11.4 | 9,540,375 | 13.4 | 27,936 | 0.3 |
| Gain on disposal of fixed assets | 54,359 | 0.1 | 38,946 | 0.1 | 15,413 | 39.6 |
| Total non-operating revenues | <u>83,945,016</u> | <u>100.0</u> | <u>71,018,435</u> | <u>100.0</u> | <u>12,926,581</u> | <u>18.2</u> |
| Total revenues | <u>285,894,697</u> | | <u>258,108,410</u> | | <u>27,786,287</u> | <u>10.8</u> |
| Operating expenses: | | | | | | |
| Purchased water | 63,850,688 | 23.2 | 58,445,847 | 22.2 | 5,404,841 | 9.2 |
| Water operations | 44,193,507 | 16.0 | 40,994,915 | 15.6 | 3,198,592 | 7.8 |
| Sewer operations | 42,710,741 | 15.5 | 40,279,734 | 15.3 | 2,431,007 | 6.0 |
| Recycled water operations | 5,992,372 | 2.2 | 5,992,260 | 2.3 | 112 | 0.0 |
| General and administrative | 28,352,049 | 10.3 | 28,392,519 | 10.8 | (40,470) | -0.1 |
| Depreciation and amortization | 82,037,529 | 29.8 | 77,162,281 | 29.3 | 4,875,248 | 6.3 |
| Net other postemployment benefits | 8,358,000 | 3.0 | 11,852,000 | 4.5 | (3,494,000) | -29.5 |
| Total operating expenses | <u>275,494,886</u> | <u>100.0</u> | <u>263,119,556</u> | <u>100.0</u> | <u>12,375,330</u> | <u>4.7</u> |
| Non-operating expenses: | | | | | | |
| Interest - COPs/Revenue Bonds | 14,783,498 | 55.7 | 15,750,253 | 61.8 | (966,755) | -6.1 |
| Interest - GO Bonds | 1,839,045 | 6.9 | 1,933,453 | 7.6 | (94,408) | -4.9 |
| Interest - other | 1,265,303 | 4.8 | 1,194,662 | 4.7 | 70,641 | 5.9 |
| GO bond service fees | 57,289 | 0.2 | 68,556 | 0.3 | (11,267) | -16.4 |
| Other expenses | 8,618,255 | 32.4 | 6,543,446 | 25.7 | 2,074,809 | 31.7 |
| Total non-operating expenses | <u>26,563,390</u> | <u>100.0</u> | <u>25,490,370</u> | <u>100.0</u> | <u>1,073,020</u> | <u>4.2</u> |
| Total expenses | <u>302,058,276</u> | | <u>288,609,926</u> | | <u>13,448,350</u> | <u>4.7</u> |
| Loss before contributions | <u>(16,163,579)</u> | | <u>(30,501,516)</u> | | <u>14,337,937</u> | <u>-47.0</u> |
| Capital contributions: | | | | | | |
| Developer contributions | 44,581,002 | 91.3 | 19,995,927 | 65.7 | 24,585,075 | 123.0 |
| Capital grants | 4,245,306 | 8.7 | 10,450,898 | 34.3 | (6,205,592) | -59.4 |
| Total capital contributions | <u>48,826,308</u> | <u>100.0</u> | <u>30,446,825</u> | <u>100.0</u> | <u>18,379,483</u> | <u>60.4</u> |
| Change in net position | <u>32,662,729</u> | | <u>(54,691)</u> | | <u>32,717,420</u> | <u>-59,822.3</u> |
| Net position at beginning of year | <u>1,517,909,197</u> | | <u>1,521,989,940</u> | | <u>(4,080,743)</u> | <u>-0.3</u> |
| Adjustment | - | | <u>(4,026,052)</u> | | <u>4,026,052</u> | |
| Net position at end of year | <u>1,550,571,926</u> | | <u>1,517,909,197</u> | | <u>32,662,729</u> | <u>2.2</u> |

Changes in Financial Performance of the District

The Revenue by Source and Expenses by Function charts in the statistical section of this report illustrate revenues by source and expenses by function, respectively, for the last ten fiscal years. The following denotes explanations for the major changes between the 2014 and 2013 fiscal years as shown in the previous table.

- Total revenues – Combined revenues including capital contributions for the fiscal year totaled \$334.7 million compared to a prior year of \$288.6 million. This is an increase of approximately \$46.2 million (16.0 percent). The table on the previous page presents a comparison of revenues by major source for the two fiscal years 2014 and 2013.
- Total expenses – Combined expenses for the fiscal year totaled \$302.1 million compared to a prior year of \$288.6 million. This is an increase of approximately \$13.4 million (4.7 percent). The table on the previous page presents a comparison of expenses by category for the two fiscal years 2014 and 2013.
- Water sales – Total domestic and irrigation sales increased approximately \$10.3 million. This change reflects an increase in tiered water rates and a 6.4 percent increase in acre-foot sales.
- Sewer service - Wastewater service charges increased \$4.1 million over the previous years total to end at \$73.1 million. This is primarily attributed to an additional 2,975 sewer connections and a 2.2 percent rate increase effective July 1, 2013.
- Connection fees – These revenues increased by a net \$9.8 million over the prior year. The Board adopted a 16 percent connection fee rate increase effective January 1, 2014. Sewer connections were 2,975 compared to the prior year's 2,550, representing an increase of 16.6 percent and water connections were 2,156 compared to the prior year's 1,464, representing an increase of 47.3 percent.
- Interest earnings – The current fiscal year's interest earnings were lower by \$1.3 million compared to the prior years, due to an average portfolio balance decline from the previous years by \$10.9 million, along with yields on investments averaging 0.86 percent for the year compared to 0.98 percent for the previous year.
- Net (decrease) increase in fair value of investments – In accordance with Governmental Accounting Standards Board Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was \$5.4 million more than the prior year amount due to a lower weighted average maturity and increased security diversity in the investment portfolio in 2014 than in 2013.
- Purchased water – The \$5.4 million increase in expense is primarily due to increased demand for water, which resulted in the purchase of 3,901 acre-feet more untreated water in 2014 than in 2013.
- Depreciation and amortization – The District capitalized a net additional \$187.6 million of depreciable assets over the course of the year, which resulted in the \$4.9 million of additional expense.
- Net other postemployment benefits – This amount is determined by an actuarial calculation as the annual required contribution plus adjustments. It includes actual pay-as-you-go costs for benefits provided to retired employees during the year, plus an estimate of the present value of projected benefits earned by current employees. The estimated amount relating to projected benefits decreased \$3.5 million, this decrease is

primarily because the District continues funding future costs with a contribution of \$2.7 million to an irrevocable trust, and the actual premiums were less than the projected premiums used in previous actuarial calculation.

- Interest – certificates of participation/revenue bonds – The \$0.97 million net decrease is primarily due to a greater amount of interest expense capitalized in the current fiscal year compared to the prior year, combined with lower interest rates on variable rate debt.
- Other non-operating expenses – The \$2.0 million increase is primarily due to current year expense relating to improvements done on customer properties in the Enchanted Heights project, funded partly by the SRF loan principal forgiveness program in the amount of \$4 million.
- Capital contributions from developers - Facilities built by developers and turned over to the District to operate and maintain increased to \$44.6 million compared to \$20.0 million in the previous year, a change of \$24.5 million. This increase mainly relates to increased processing of project closures and additional development activity in the service area.
- Capital contributions from grants - The District actively pursues grant funding and revenues which vary from year to year. Major capital grant revenues for fiscal year 2014 include federal and state of California grants totaling \$2.2 million for the Enchanted Heights Sewer Infrastructures project, federal grant totaling \$0.8 million for the Audie Murphy Ranch Pipeline & San Jacinto Reservoir Pump Station, and state grant of \$0.5 million for the Perris II Desalter Well 93.
- Net position - The financial condition of the District has remained steady for fiscal year 2014. The table on page 5 compares the various categories of assets, liabilities, deferred outflows of resources and net position for the two fiscal years 2014 and 2013.

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$2,143.9 million in fiscal year 2014 compared to \$2,080.4 million in fiscal year 2013. A comparison of this change is provided below by major category. Refer to Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets For the Fiscal Years Ended June 30, 2014 and 2013

| | 2014 | 2013 | Increase/(Decrease) | |
|----------------------------------|------------------|------------------|---------------------|-------------|
| | | | Amount | % Change |
| Land | \$ 45,790,534 | \$ 43,469,609 | \$ 2,320,925 | 5.3 |
| Tunnel water seepage agreement | 1,750,900 | 1,750,900 | - | 0.0 |
| Water capacity rights | 29,657,807 | 29,657,807 | - | 0.0 |
| Water plant, lines and equipment | 1,057,834,177 | 985,110,369 | 72,723,808 | 7.4 |
| Sewer plant, lines and equipment | 1,602,575,684 | 1,492,619,061 | 109,956,623 | 7.4 |
| Equipment and general facilities | 122,429,236 | 117,522,156 | 4,907,080 | 4.2 |
| Construction in progress | 217,698,701 | 262,845,195 | (45,146,494) | -17.2 |
| Total capital assets | 3,077,737,039 | 2,932,975,097 | 144,761,942 | 4.9 |
| Less accumulated depreciation | (933,823,572) | (852,552,477) | (81,271,095) | 9.5 |
| Net capital assets | \$ 2,143,913,467 | \$ 2,080,422,620 | \$ 63,490,847 | 3.1 |

Significant additions to capital assets include \$44.6 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions relating to development in the area. Other additions resulted from the completion and capitalization of \$150 million construction in progress.

The three largest District projects that were capitalized during the 2014 fiscal year include the San Jacinto Valley Regional Water Reclamation Facility (SJRWRF) Expansion to 14 million gallons per day (MGD) (\$46.5 million); the Menifee/Perris I Desalters Iron and Manganese Removal Facility (\$21.6 million); and the Perris Water Filtration Plant (PWFP) Reject Recovery Facility (\$9.9 million).

The San Jacinto Valley Regional Water Reclamation Facility (SJRWRF) Expansion to 14 MGD project included the design, construction and upgrade of tertiary treatment facilities and Plant 2 facilities. The tertiary treatment includes expansion of chlorine contact basin, tertiary effluent and utility pump station, filters, etc. The Plant 2 facilities includes new headworks, digesters, primary clarifiers, odor scrubber, secondary clarifiers, aeration basins, operations/maintenance building, sludge thickeners, upgrade of Plant 1 aeration basins, etc. After completion of this project, SJRWRF will have firm capacity of 14 MGD based on annual average flows. This project was substantially completed as of June 30, 2014, with final work to be completed in 2015.

The Menifee/Perris I Desalters Iron and Manganese Removal Facility project includes the design, construction and upgrades to the existing Menifee/Perris I Desalter Facility and the existing well field to allow the facility to operate from 5.2 MGD to ultimate capacity, 8.4 MGD. The work comprises construction of an iron and manganese removal treatment plant within the District's existing Facility, and construction of chlorination facilities for eleven (11) existing wells at ten (10) separate well sites. The facility will use a conventional coagulation/filtration treatment process to remove iron and manganese (among various other constituents) from the brackish

groundwater to acceptable levels to prevent fouling of the downstream reverse osmosis membranes, resulting in utilization of the full rated capacity of the Desalters. This project was substantially completed as of February 28, 2014, with final work to be completed by December 31, 2014.

The Perris Water Filtration Plant (PWFP) Reject Recovery Facility project includes the design and construction of a Reject Recovery Facility (RRF) to provide a new source of water supply and to reduce overall treatment costs. The PWFP membrane treatment process currently rejects flow and discharges the untreated concentrated water to the sewer which is further treated downstream at the PVRWRF. The PWFP is rated at a capacity of 24 MGD and has the ability to treat both Colorado River and State Project source waters. The PWFP is routinely operated at 98% recovery, which yields 0.4 MGD of reject flow at current design capacity. The RRF captures and treats the reject water using low pressure membrane filtration system and the treated effluent water is sent to the head of the plant for further processing. The RRF is configured to treat the reject flows up to 1 MGD (ultimate) at 85% recovery. The reject from the RRF is approximately 0.06 MGD (initially) which will continue to be discharged to the sewer under routine operation. This project was substantially completed as of June 30, 2014, with final work to be completed by October 31, 2014.

The District had \$42,441,662 in construction contract commitments as of June 30, 2014. Refer to Note 11 to the basic financial statements for further information regarding these commitments.

Capital Expenses

During the year, additions to construction in progress totaled approximately \$105.0 million. Some of the major projects currently underway and where expenses in fiscal year 2014 exceeded \$2.0 million include:

| | <u>Millions</u> |
|--|-----------------|
| • San Jacinto Valley RWRF Expansion to 14 MGD | \$ 26.8 |
| • Ten Water and sewer projects between \$1,000,000 to \$2,000,000 | 15.4 |
| • Sixty-four water and sewer projects between \$100,000 - \$500,000 | 14.4 |
| • Sixteen water and sewer projects between \$500,000 - \$1,000,000 | 11.7 |
| • Remaining water and sewer projects with expenses less than \$100,000 | 8.2 |
| • Wine Country Sewer Infrastructure Project | 6.4 |
| • Perris Water Filtration Plant Project Recovery Facility | 5.5 |
| • Whitewood Gravity Sewer | 4.9 |
| • Warm Springs 30-inch Force Main | 3.5 |
| • Enchanted Heights Sewer Infrastructure | 3.2 |
| • 500 KW Solar Photovoltaic Renewable Energy Project | 2.8 |
| • San Jacinto/MWD Recycle Water Pond Pump Station | 2.2 |
| | <u>\$ 105.0</u> |

Noncurrent Liabilities

Noncurrent liabilities consist of debt and other liabilities. Long-term debt includes advances for construction, notes and assessments, revenue bonds, COPs, GO bonds and unamortized deferred amounts for premiums/discounts relating to debt issuances. Other noncurrent liabilities include SRF construction advances, advances from developers, settlement payable relating to the Soboba Settlement Agreement, other accrued expenses, and compensated absences; net other postemployment benefits (OPEB) obligation and the fair value of swap contracts.

The District had a total of \$1,041.3 million of outstanding debt and other noncurrent liabilities at June 30, 2014, a net increase of \$6.0 million or 0.6 percent from the prior year. Total debt increased \$16.2 million to \$801.9 million due the \$43.9 million SRF construction advance for the APAD project converting to a loan with repayment beginning December 2013, and scheduled debt payments and amortization of discount/premium totaling \$27.7 million. The amount of debt and amortizations due within one year total \$19.8 million. To reduce debt service costs, the District restructured the variable rate 2008C COPs and refunded the 2008E COP with the 2014A Refunding Revenue Bonds

Other noncurrent liabilities decreased \$10.2 million, mainly due to a net decrease in SRF construction advances of \$14.5 million and decrease in fair value of the swap contracts of \$1.4 million. These decreases were offset by \$2.1 million increase in net OPEB obligation and \$2.7 million in advances from developers.

The District's parity COP and Revenue Bond debt has been assigned an AA+, Aa2 and AA rating and the subordinate 2014A Refunding Revenue Bonds has been assigned an AA, Aa3, and AA- from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 5 to the basic financial statements.

Contacting the District's Financial Management

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Finance Department.

EASTERN MUNICIPAL WATER DISTRICT

Statement of Net Position

June 30, 2014

(with prior year data for comparison purposes only)

| | June 30 | |
|---|----------------------|----------------------|
| | 2014 | 2013 |
| Assets: | | |
| Current assets: | | |
| Cash and investments (Note 2) | \$ 212,038,291 | \$ 214,238,862 |
| Utility accounts receivable, net of allowances | 29,580,997 | 28,214,128 |
| Property taxes receivable | 12,170,806 | 12,121,373 |
| Accrued interest receivable | 939,445 | 409,507 |
| Other receivables | 5,143,395 | 7,266,027 |
| Prepaid expenses | 3,001,662 | 3,200,649 |
| Net pension assets (Note 4) | 530,948 | 530,948 |
| Materials and supplies inventory | 3,136,749 | 3,121,337 |
| Water Inventory (Notes 11) | 2,091,314 | 2,279,683 |
| Grants receivable | 3,872,111 | 5,780,119 |
| Total current assets | 272,505,718 | 277,162,633 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Debt service/covenants cash and investments (Note 2) | 113,649,543 | 125,928,754 |
| Property taxes receivable | 1,539,415 | 1,477,073 |
| Soboba reimbursement receivable (Note 11) | 12,998,778 | 12,998,778 |
| Construction cash and investments (Note 2) | 75,527,588 | 76,926,242 |
| Notes receivable | 28,216 | 69,118 |
| Total restricted assets | 203,743,540 | 217,399,965 |
| Capital assets (Note 3): | | |
| Land | 45,790,534 | 43,469,609 |
| Tunnel water seepage agreement | 1,750,900 | 1,750,900 |
| Structures, improvements and water rights | 2,690,067,668 | 2,507,387,237 |
| Equipment and general facilities | 122,429,236 | 117,522,156 |
| Construction in progress | 217,698,701 | 262,845,195 |
| Total capital assets | 3,077,737,039 | 2,932,975,097 |
| Less accumulated depreciation | (933,823,572) | (852,552,477) |
| Total net capital assets | 2,143,913,467 | 2,080,422,620 |
| Other assets: | | |
| Net pension assets (Note 4) | 3,498,232 | 4,029,180 |
| Total noncurrent assets | 2,351,155,239 | 2,301,851,765 |
| Total assets | 2,623,660,957 | 2,579,014,398 |
| Deferred outflows of resources | | |
| Accumulated decrease in fair value of swap contracts (Note 6) | 14,120,430 | 15,517,588 |
| Deferred charges on debt refundings | 11,244,091 | 12,578,209 |
| Total deferred outflows of resources | 25,364,521 | 28,095,797 |

(Continued on next page)

| | June 30 | |
|---|----------------------|----------------------|
| | 2014 | 2013 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$ 35,501,392 | \$ 32,781,809 |
| Accrued salaries and benefits | 2,935,094 | 2,674,180 |
| Customer deposits | 8,175,756 | 7,285,594 |
| Compensated absences (Note 5) | 7,625,285 | 5,949,835 |
| Accrued interest | 8,313,409 | 8,990,295 |
| Other payables | 2,231,100 | 2,224,517 |
| Advances for construction, notes and assessments (Note 5) | 3,958,096 | 3,594,533 |
| Revenue bonds (Note 5) | 8,493,590 | 7,768,590 |
| Certificates of participation (Note 5) | 4,753,784 | 9,983,784 |
| General obligation bonds (Note 5) | 2,550,504 | 2,502,646 |
| Settlement payable (Note 11) | - | 2,499 |
| Advances from developers (Note 14) | 1,103,429 | 143,123 |
| Capital lease payable (Note 5) | 13,498 | - |
| Other accrued expenses (Note 5) | 1,975,479 | 1,385,896 |
| Total current liabilities | 87,630,416 | 85,287,301 |
| Noncurrent liabilities: | | |
| Compensated absences (Note 5) | 5,785,451 | 6,702,586 |
| Advances for construction, notes and assessments (Note 5) | 101,237,573 | 65,154,855 |
| Revenue bonds (Note 5) | 190,031,537 | 149,880,127 |
| Certificates of participation (Note 5) | 454,956,306 | 508,355,090 |
| General obligation bonds (Note 5) | 35,896,296 | 38,446,800 |
| State Revolving Fund construction advances (Note 5) | 127,822,117 | 142,318,983 |
| Advances from developers (Note 14) | 22,616,585 | 20,853,017 |
| Capital lease payable (Note 5) | 41,574 | - |
| Other accrued expenses (Note 5) | 5,976,231 | 6,472,480 |
| Net other postemployment benefits obligation (Note 9) | 52,339,036 | 50,212,171 |
| Fair value of swap contracts (Note 6) | 14,120,430 | 15,517,588 |
| Total noncurrent liabilities | 1,010,823,136 | 1,003,913,697 |
| Total liabilities | 1,098,453,552 | 1,089,200,998 |
| Net position: | | |
| Net investment in capital assets | 1,300,393,466 | 1,239,753,130 |
| Restricted for debt service/covenants (Note 10) | 70,625,613 | 73,268,230 |
| Restricted for construction (Note 10) | 45,199,054 | 56,375,249 |
| Unrestricted (Note 10) | 134,353,793 | 148,512,588 |
| Total net position | 1,550,571,926 | 1,517,909,197 |

See accompanying notes to the basic financial statements

Eastern Municipal Water District

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

| | Fiscal Year Ended June 30 | |
|--|---------------------------|------------------|
| | 2014 | 2013 |
| Operating revenues: | | |
| Water sales - domestic | \$ 118,695,153 | \$ 110,468,194 |
| Water sales - irrigation | 4,029,022 | 1,988,610 |
| Sewer service charge | 73,100,086 | 68,957,128 |
| Recycled water sales | 6,125,420 | 5,676,043 |
| Total operating revenues | 201,949,681 | 187,089,975 |
| Operating expenses: | | |
| Purchased water | 63,850,688 | 58,445,847 |
| Water operations | 44,193,507 | 40,994,915 |
| Sewer operations | 42,710,741 | 40,279,734 |
| Recycled water operations | 5,992,372 | 5,992,260 |
| General and administrative | 28,352,049 | 28,392,519 |
| Depreciation and amortization | 82,037,529 | 77,162,281 |
| Net other postemployment benefits | 8,358,000 | 11,852,000 |
| Total operating expenses | 275,494,886 | 263,119,556 |
| Loss from operations | (73,545,205) | (76,029,581) |
| Non-operating revenues (expenses): | | |
| Property taxes - general levy | 28,061,489 | 27,243,490 |
| Property taxes - general bond levy | 4,517,348 | 5,311,738 |
| Availability (standby) assessments | 5,700,591 | 5,635,153 |
| Water and sewer connection fees | 30,149,861 | 20,364,185 |
| Interest - operations and restricted funds | 3,133,313 | 4,485,217 |
| Net increase (decrease) in fair value of investments | 1,746,290 | (3,694,351) |
| Interest - general obligation bond funds | 43,980 | 41,069 |
| Grant revenues | 969,474 | 2,052,613 |
| Other revenues | 9,568,311 | 9,540,375 |
| Gain on disposal of fixed assets | 54,359 | 38,946 |
| Interest - certificates of participation/revenue bonds | (14,783,498) | (15,750,253) |
| Interest - general obligation bonds | (1,839,045) | (1,933,453) |
| Interest - other | (1,265,303) | (1,194,662) |
| General obligation bond service fees | (57,289) | (68,556) |
| Other expenses | (8,618,255) | (6,543,446) |
| Total non-operating revenues | 57,381,626 | 45,528,065 |
| Loss before contributions | (16,163,579) | (30,501,516) |
| Capital contributions | | |
| Developer contributions | 44,581,002 | 19,995,927 |
| Capital grants | 4,245,306 | 10,450,898 |
| Total capital contributions | 48,826,308 | 30,446,825 |
| Change in net position | 32,662,729 | (54,691) |
| Total net position at beginning of year | 1,517,909,197 | 1,521,989,940 |
| Adjustment | - | (4,026,052) |
| Total net position at end of year | \$ 1,550,571,926 | \$ 1,517,909,197 |

See accompanying notes to the basic financial statements

EASTERN MUNICIPAL WATER DISTRICT

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

| | Fiscal Year Ended June 30 | |
|---|---------------------------|----------------|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Receipts from customers | 205,544,639 | \$ 185,465,043 |
| Receipts from availability (standby) assessments | 5,860,100 | 5,552,779 |
| Other receipts | 9,568,311 | 6,292,677 |
| Payments for water | (63,684,669) | (58,445,847) |
| Payments to employee for services | (71,029,671) | (66,709,450) |
| Payments to suppliers for goods and services | (46,635,900) | (69,207,707) |
| Payments for energy and utilities | (15,766,823) | (13,545,392) |
| Net cash (used for) provided by operating activities | 23,855,987 | (10,597,897) |
| Cash flows from noncapital financing activities | | |
| Proceeds from property taxes, general levy | 27,851,864 | 27,165,703 |
| Proceeds from operating grants | 2,228,554 | 2,244,532 |
| Net cash (used for) provided by noncapital financing | 30,080,418 | 29,410,235 |
| Cash flows from capital and related financing activities | | |
| Acquisitions and construction of capital assets | (94,949,161) | (134,892,228) |
| Proceeds from sale of capital assets | 117,949 | 95,950 |
| Proceeds from long-term debt issuance | 48,645,000 | 142,877,850 |
| Proceeds from SRF construction advances | 26,409,638 | 20,117,337 |
| Repayment of notes, bonds and certificates of participations | (75,281,718) | (126,985,877) |
| Interest paid | (21,373,159) | (21,023,534) |
| Proceeds from property taxes, GO bond levy | 4,455,006 | 5,087,323 |
| Proceeds from water and sewer connection fees | 30,149,861 | 20,364,185 |
| Proceeds from developer advances | 11,397,314 | 7,559,630 |
| Repayments of developer advances | (8,673,440) | (8,730,717) |
| Proceeds from capital grants | 4,894,234 | 22,064,482 |
| Net cash (used for) capital and related financing activities | (74,208,476) | (73,465,599) |
| Cash flows from investing activities | | |
| Purchases of investments | (147,716,006) | (103,528,176) |
| Proceeds from sales and maturities of investments | 47,234,313 | 310,422,702 |
| Proceeds from earnings on investments | 2,647,355 | 5,217,739 |
| Net cash provided by investing activities | (97,834,338) | 212,112,265 |
| Total (decrease) increase in cash and cash equivalents | (118,106,409) | 157,459,004 |
| Cash and cash equivalents at beginning of year | 275,381,190 | 117,922,186 |
| Cash and cash equivalents at end of year (Note 2) | 157,274,781 | \$ 275,381,190 |

(Continued on next page)

EASTERN MUNICIPAL WATER DISTRICT

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2014
(with prior year data for comparison purposes only)

| | Fiscal Year Ended June 30 | |
|--|---------------------------|-----------------------|
| | 2014 | 2013 |
| Reconciliation of loss from operations to net cash provided by (used for) operating activities: | | |
| Loss from operations | (73,545,205) | \$ (76,029,581) |
| Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization expense | 82,037,529 | 77,162,281 |
| Other revenues | 7,181,605 | 8,451,740 |
| (Increase) decrease in utility accounts receivable | (1,366,869) | (2,936,216) |
| (Increase) decrease in other receivables | 2,282,824 | (5,724,305) |
| (Increase) decrease in prepaid expenses | 198,987 | (876,750) |
| (Increase) decrease in materials and supplies inventory | (15,412) | 73,471 |
| (Increase) decrease in water inventory | 188,369 | (2,279,683) |
| (Increase) decrease in notes receivable | 40,902 | (8,588) |
| (Increase) decrease in accounts payable | 1,326,665 | (6,681,817) |
| (Increase) decrease in accrued expenses | 1,753,749 | 1,557,480 |
| (Increase) decrease in customer deposits | 890,162 | 534,100 |
| (Increase) decrease in settlement payable | (2,499) | (9,997,501) |
| (Increase) decrease in compensated absences | 758,315 | 136,472 |
| (Increase) decrease in net other postemployment benefits obligation | 2,126,865 | 6,021,000 |
| Net cash (used for) provided by operating activities | 23,855,987 | \$ (10,597,897) |
| Reconciliation of cash and cash equivalent to statement of net position: | | |
| Current cash and investments | 212,038,291 | \$ 214,238,862 |
| Restricted cash and investments: | | |
| Debt service/covenants | 113,649,543 | 125,928,754 |
| Construction | 75,527,588 | 76,926,242 |
| Total cash and investments | 401,215,422 | 417,093,858 |
| Less investments | 243,940,641 | 141,712,668 |
| Cash and cash equivalents (Note 2) | 157,274,781 | \$ 275,381,190 |
| Noncash capital, financing, and investing activities | | |
| Capital asset contributions from developers | 44,581,002 | \$ 19,995,927 |
| Net increase (decrease) in fair value of investments | 1,746,290 | (3,694,351) |
| Amortization of bond premiums, discounts, and loss on debt refundings | 234,098 | 841,360 |

See accompanying notes to the basic financial statements

Eastern Municipal Water District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in the management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

The District formed the Eastern Municipal Water District Facilities Corporation (Facilities Corporation) on April 10, 1979, under the Non-Profit Public Benefit Corporation Law, State of California, for the purpose of rendering financing assistance to the District by acquiring, constructing and operating or providing for the operation of water and wastewater facilities, including water and wastewater transmission pipelines, treatment plants and related facilities for the use, benefit and enjoyment of the public within the District's boundaries. The Facilities Corporation is a blended component unit of the District.

The District's reporting entity includes the general District, the related improvement Districts located within the service area of the general District and the Facilities Corporation. Although the District and the Facilities Corporation are legally separate entities, the District's Board of Directors also serves as the Facilities Corporation's Board of Directors, and therefore, the accompanying financial statements include the accounts and records of the Facilities Corporation as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation. The Facilities Corporation merely serves as the legal entity used by the District to issue long-term debt. Accordingly, the Facilities Corporation has no separate financial activity to be reported as a separate fund of the District.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Basis of Accounting and Measurement Focus

The District accounts for its operations on a fund basis. In governmental accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Because the activities of the District receive significant support from fees and charges, it uses a proprietary (enterprise) fund. Enterprise fund accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and 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.

Cash and Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. Guaranteed investment contracts are carried at cost because they are not transferable and have terms that are not affected by changes in market interest rates.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly-liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Classification of Revenues and Expenses

An enterprise fund distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for domestic, agricultural and irrigation, and recycled water sales, and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services. Non-operating revenues mainly consist of property taxes, availability (standby) assessments, investment income, connection fees, and miscellaneous income. Capital contributions consist of facilities built by developers and turned over to the District to operate and maintain; and federal, state and private grants used to fund capital assets. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets

Both purchased capital assets and self-constructed capital assets are recorded at cost. The cost of self-constructed assets includes direct labor, material, contracted services, overhead and interest on funds borrowed to finance construction. Contributed capital assets are recorded at fair market value at the time they are received. These assets consist primarily of distribution lines and connections constructed and donated by developers. The District follows the capitalization thresholds shown below for all purchased or constructed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

| Asset Group | Amount (Minimum) | Estimated Useful Life |
|--|-----------------------------|----------------------------------|
| Department tools and equipment; computer hardware and software | \$ 5,000 | > than 3 years |
| Facilities plant and equipment | 10,000 | > than 5 years |
| Fleet vehicles | 10,000 | > than 3 years |
| Operations and maintenance improvement/replacement projects | 10,000 | > than 5 years |

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|--|--------------|
| Water source of supply and treatment | 30-40 |
| Water storage and distribution | 20-40 |
| Wastewater collection system and lift stations | 35-100 |
| Wastewater treatment plants | 40-50 |
| Recycled water storage and distribution | 40-50 |
| Capacity rights | 40 |
| Meters and service connections | 20-25 |
| Buildings and improvements | 10-35 |
| Office and general equipment | 5-10 |
| Automotive pool | 5-15 |

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to \$850,608 and \$842,850 at June 30, 2014 and 2013, respectively.

Inventories

Material and supplies inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost. Water inventory consists of native groundwater and purchased water holdings in the Hemet-San Jacinto Basin. It is valued based upon purchase cost and weighted average cost of consumption. Refer to Note 11 to the basic financial statements for more information regarding water inventory.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Restricted Assets

Amounts shown as restricted assets have been restricted by bond indenture, law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Restricted assets include water and sewer connection fees. The resolution establishing the authority for water and sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and sewer connection fees are exchange transactions (non-operating revenues). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid. These fees do not represent capital contributions (nonexchange transactions).

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities, and are used for specific types of projects for which such funding is designated. When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources, depending upon the type of project or activity, as determined by Board action.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$8,313,969 and \$7,217,378 at June 30, 2014 and 2013, respectively.

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at 1 percent of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which the taxes have been levied.

The property tax calendar is as follows:

| | |
|------------------|---|
| Lien date: | January 1 |
| Levy date: | July 1 |
| Due date: | First installment – November 1 Second installment – February 1 |
| Delinquent date: | First installment – December 10 Second installment – April 10 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Debt Discounts, Premiums, and Deferred Amounts on Refunding

General obligation bond, revenue bond, and certificate of participation premiums and discounts are deferred and amortized over the term of the bonds. The discounts and premiums are presented as an addition (or reduction) of the face amount of the debt. Furthermore, in accordance with GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred charges on refunding are presented as deferred outflows of resources on the Statement of Net Position.

Compensated Absences

The District has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion is paid to the employee. At retirement, employees who qualify under the Public Employees Retirement Law are paid for 100 percent of their unused sick leave up to 625 hours and 50 percent for all hours in excess of 625 hours, at their regular payroll rates in effect at the date of termination. All employees who separate from the District, other than for retirement, who have completed at least six months of continuous service and/or have been authorized to use their sick leave, are entitled to receive 25 to 75 percent of their then unused sick leave at their regular payroll rate. The District has provided for these future costs by accruing 100 percent of all earned and unused sick leave and vacation because historical data shows that most employees retire from the District and the few employees who separate prior to retirement qualified to have a high percentage of their sick leave paid out.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles, and therefore include amounts that are based on management's best estimates and judgments. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. Certain immaterial amounts in fiscal year 2013 have been reclassified to conform to the fiscal year 2013 presentation. Such reclassifications had no effect on the previously reported change in net position.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

1. Description of Reporting Entity and Summary of Significant Accounting Policies (continued)

Interest Rate Swap Contracts

The District entered into interest rate swap contracts to fix the interest rates on certain outstanding variable rate debt. These contracts are recorded at fair value.

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred outflows of resources in the statement of net position. As of June 30, 2014 and June 30, 2013, all potential hedging instruments of the District are considered effective hedges.

2. Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position at June 30 as follows:

| | 2014 | 2013 |
|------------------------|-----------------------|-----------------------|
| Current assets | \$ 212,038,291 | \$ 214,238,862 |
| Restricted assets: | | |
| Debt service/covenants | 113,649,543 | 125,928,754 |
| Construction | 75,527,588 | 76,926,242 |
| Totals | \$ 401,215,422 | \$ 417,093,858 |

Cash and investments at June 30 consisted of the following:

| | 2014 | 2013 |
|--------------------------------------|-----------------------|-----------------------|
| Cash on hand | \$ 4,900 | \$ 4,900 |
| Deposits with financial institutions | 8,673,875 | 80,368,358 |
| Investments | 392,536,647 | 336,720,600 |
| Total cash and investments | \$ 401,215,422 | \$ 417,093,858 |

Cash and cash equivalents at June 30 consisted of the following:

| | 2014 | 2013 |
|---|-----------------------|-----------------------|
| Demand accounts and on hand | \$ 8,678,775 | \$ 80,373,258 |
| Local Agency Investment Fund (LAIF) | 58,797,449 | 58,774,317 |
| Investment Trust of California (CalTRUST) | 50,832,179 | 59,377,295 |
| Money market mutual funds | 38,966,378 | 76,856,320 |
| Total cash and cash equivalents | \$ 157,274,781 | \$ 275,381,190 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

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 and the District's investment policy. 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 and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee 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.

| Investment Types Authorized by State Law | Authorized by Investment Policy | Maximum Maturity* | Maximum Percentage of Portfolio* | Maximum Investment in One Issuer* |
|---|--|------------------------------|---|--|
| U.S. treasury obligations | Yes | 5 Years | None | None |
| U.S. agency securities | Yes | 5 Years | None | None |
| Bankers' acceptances | Yes | 180 Days | 40% | 30% |
| Negotiable certificates of deposit | Yes | 1 Year | 30% | 25% |
| Commercial paper | Yes | 270 Days | 25% | 10% |
| Repurchase agreements | No ¹ | 1 Year | None | None |
| Reverse repurchase agreements | No | 92 Days | 20% | None |
| Medium-term notes | Yes | 5 Years | 30% | 25% |
| Mortgage pass – through securities | No | 5 Years | None | None |
| LAIF | Yes | None | None | \$50,000,000 |
| CA local agency securities | Yes | 5 Years ² | 30% ³ | 25% ³ |
| Mutual funds | No | N/A | None | None |
| Money market mutual funds | Yes | N/A | 15% | 10% |
| County pooled investment funds | No | N/A | None | None |
| Joint powers authority (CalTRUST) | Yes | N/A | 15% | 15% |
| Investment contracts | Yes | None | None | None |

* Based upon State law or investment policy requirements, whichever is more restrictive.

1. Only permitted for use in the District's sweep account.

2. Maturities may exceed 5 years with specific required credit ratings.

3. Investments in the District's own tendered securities may exceed percentages on a temporary basis.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

2. Cash and Investments (continued)

Investments Authorized by Debt Agreements

Investment 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 and concentration of risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|--|-------------------------|--|---|
| U.S. treasury obligations | None | None | None |
| U.S. agency securities | None | None | None |
| State obligations or political subdivision of states | None | None | None |
| Bankers' acceptances | 1 Year | None | None |
| Certificates of deposit | None | None | None |
| Commercial paper | None | None | None |
| Guaranteed investment contracts | None | None | None |
| Repurchase agreements | 30 Days | None | None |
| Money market mutual funds | None | None | None |
| LAIF | None | None | None |

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 evenly over time, as necessary to provide the cash flow and liquidity needed for operation.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the table on the following page, which shows the distribution of the District's investment by remaining maturity.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

Interest Rate Risk (continued)

| Investment Type | Total Amount | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
|--|-------------------------|------------------------------|----------------------------|----------------------------|--------------------------------|
| U.S. agency securities: | | | | | |
| Federal Farm Credit Bank (FFCB) | \$ 38,498,720 | \$ - | \$ 4,973,750 | \$33,524,970 | \$ - |
| Federal Home Loan Bank (FHLB) | 34,729,150 | - | - | 34,729,150 | - |
| Federal Home Loan Mortgage Corp. (FHLMC) | 14,821,500 | - | - | 14,821,500 | - |
| Federal National Mortgage Assn. (FNMA) | 62,604,350 | - | 22,925,250 | 39,679,100 | - |
| Corporate – Fixed | 37,160,676 | 1,011,110 | 15,301,650 | 20,847,916 | - |
| Corporate – Floating | 23,201,292 | 4,200,892 | 5,003,360 | 13,997,040 | - |
| Municipal | 29,792,299 | 2,002,740 | 16,206,105 | 11,583,454 | - |
| LAIF | 50,014,937 | 50,014,937 | - | - | - |
| Investment Trust of California (CalTRUST) | 50,832,179 | - | 50,832,179 | - | - |
| Money market mutual funds | 2,858,250 | 2,858,250 | - | - | - |
| Held by trustee: | | | | | |
| LAIF | 8,782,512 | 8,782,512 | - | - | - |
| Money market mutual funds | 36,108,128 | 36,108,128 | - | - | - |
| Guaranteed investment contracts (GICs)* | 3,132,654 | - | - | - | 3,132,654 |
| Total investments | \$392,536,647 | \$ 104,978,569 | \$115,242,294 | \$169,183,130 | \$ 3,132,654 |

* The District's GIC is with AIG Matched Funding Corporation (AIG). The contract required AIG to deposit securities as collateral with Wells Fargo Bank Minnesota, NA at a value of at least 105% of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by AIG. As of June 30, 2014, AIG was not in default and the value of the investment exceeded 105% of the investment balance.

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2014 the District had \$23,201,292 invested in corporate floating notes.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

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. The table below shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's Rating Services credit rating as of year-end for each investment type.

| Investment Type | Total Amount | Min. Legal Rating | Rating at End of Year | | | |
|---------------------------------|-----------------------|-------------------|-----------------------|-----------------------|---------------------|-----------------------|
| | | | AAA | AA | A | Unrated |
| U.S. agency securities: | | | | | | |
| FFCB | \$ 38,498,720 | N/A | \$ - | \$ 38,498,720 | \$ - | \$ - |
| FHLB | 34,729,150 | N/A | - | 34,729,150 | - | - |
| FHLMC | 14,821,500 | N/A | - | 14,821,500 | - | - |
| FNMA | 62,604,350 | N/A | - | 62,604,350 | - | - |
| Corporate – Fixed | 37,160,676 | A | 2,060,020 | 18,213,660 | 16,886,996 | - |
| Corporate – Floating | 23,201,292 | A | - | 19,199,982 | 4,001,310 | - |
| Municipal | 29,792,299 | N/A | - | 26,137,886 | 3,654,413 | - |
| LAIF | 50,014,937 | N/A | - | - | - | 50,014,937 |
| CalTRUST | 50,832,179 | N/A | - | - | - | 50,832,179 |
| Money market mutual funds | 2,858,250 | AAA* | 2,858,250 | - | - | - |
| Held by trustee: | | | | | | |
| LAIF | 8,782,512 | N/A | - | - | - | 8,782,512 |
| Money market mutual funds | 36,108,128 | N/A | 36,108,128 | - | - | - |
| Guaranteed investment contracts | 3,132,654 | N/A | - | - | - | 3,132,654 |
| Total investments | \$ 392,536,647 | | \$41,026,398 | \$ 214,205,248 | \$24,542,719 | \$ 112,762,282 |

* Money market mutual funds are rated AAAM by S&P and Aaa-mf by Moodys at June 30, 2014. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2014.

| Issuer | Investment Type | Reported Amount |
|--------|------------------------|-----------------|
| FNMA | U.S. agency securities | \$ 62,604,350 |
| FHLB | U.S. agency securities | 34,729,150 |
| FFCB | U.S. agency securities | 38,498,720 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

2. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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 a failure of the counter party (e.g., broker-dealer) to a transaction, a government 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. The market value of the pledged securities in the collateral pool must equal 110 percent 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 percent of the secured public deposits. As of June 30, 2014, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which 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 costs 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. Additional information about the State of California's LAIF can be found on their website: www.treasurer.ca.gov/pmia-laif.

Investment in Investment Trust of California (CalTRUST)

The District is a voluntary participant in CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. 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 CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

3. Capital Assets

A summary of capital assets at June 30 is as follows:

| | Beginning Balance June 30, 2013 | Additions | Reductions | Ending Balance June 30, 2014 |
|---|--|----------------------|------------------------|---|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 43,469,609 | \$ 2,320,925 | \$ - | \$ 45,790,534 |
| Tunnel Water Seepage Agreement | 1,750,900 | - | - | 1,750,900 |
| Construction in progress | 262,845,195 | 105,002,288 | (150,148,782) | 217,698,701 |
| Total capital assets, not being depreciated | 308,065,704 | 107,323,213 | (150,148,782) | 265,240,135 |
| Capital assets, being depreciated: | | | | |
| Water plant, lines and equipment | 985,110,369 | 72,723,808 | - | 1,057,834,177 |
| Water capacity rights | 29,657,807 | - | - | 29,657,807 |
| Sewer plant, lines and equipment | 1,492,619,061 | 110,017,196 | (60,573) | 1,602,575,684 |
| Equipment and general facilities | 117,522,156 | 5,676,530 | (769,450) | 122,429,236 |
| Total capital assets, being depreciated | 2,624,909,393 | 188,417,534 | (830,023) | 2,812,496,904 |
| Less accumulated depreciation for: | | | | |
| Water plant, lines and equipment | 323,927,918 | 34,781,875 | - | 358,709,793 |
| Water capacity rights | 6,547,111 | 712,317 | - | 7,259,428 |
| Sewer plant, lines and equipment | 439,683,792 | 40,290,858 | (9,464) | 479,965,186 |
| Equipment and general facilities | 82,393,656 | 6,252,479 | (756,970) | 87,889,165 |
| Total accumulated depreciation | 852,552,477 | 82,037,529 | (766,434) | 933,823,572 |
| Total capital assets, being depreciated, net | 1,772,356,916 | 106,380,005 | (63,589) | 1,878,673,332 |
| Capital assets, net | \$2,080,422,620 | \$213,703,218 | \$(150,212,371) | \$2,143,913,467 |

The net interest cost capitalized during fiscal years ended June 30, 2014 and 2013 was \$5,986,828 and \$4,924,837, respectively.

Depreciation expense breakdown for 2014:

| | |
|------------------------|----------------------|
| Water | \$ 27,783,532 |
| Sewer | 41,154,762 |
| Recycled | 5,879,993 |
| General/Administrative | 7,219,242 |
| Total | \$ 82,037,529 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

3. Capital Assets (continued)

The District entered into a Tunnel Water Seepage Agreement with the Metropolitan Water District (MWD) in 1951 to set the terms and conditions of annexation to the MWD service area. Among other provisions, the agreement provided that for all future time, the tunnel water seepage of MWD's San Jacinto tunnel would come under the control and be delivered free to the District. In 1953, the District established an intangible asset that represented the value of this agreement based on an engineering report by Warren O. Wagner, consulting hydraulic engineer. The original appraisal was established at \$1,669,000 based on an annual value of this additional water at 5,840-acre feet per year at \$10.00 per acre-foot and a money value of 3.5 percent. This value was reevaluated in 1957 with Mr. Wagner and a revised value of \$1,750,900 was established based on \$12.00 per acre-foot and a 4.0 percent value of money. This agreement is not amortized because it has an indefinite useful life.

4. Net Pension Assets

The District amended its California Public Employees Retirement System (PERS) contract on January 4, 1998 to implement a 2.0 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$4,939,895. This would have resulted in an employer rate increase of 1.495 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$246,995, and the balance of future expense is \$658,701 at June 30, 2014.

The District amended its PERS contract on August 5, 2005 to implement a 2.5 percent at 55 retirement program. The actuarial division of PERS determined that the present value impact on the District was an unfunded liability of \$5,679,062. This would have resulted in an employer rate increase of 2.145 percent of eligible payroll over the next 20 years. However, the District opted to pay this liability in advance and is amortizing this prepaid amount over the next 20 years. The current portion is \$283,953, and the balance of future expense is \$2,839,531 at June 30, 2014.

Both are reflected in the Statement of Net Position as Net Pension Asset of \$4,029,180.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities

A summary of long-term debt and other noncurrent liabilities at June 30 is as follows:

| | Beginning Balance June 30, 2013 | Additions | Reclassification | Reductions | Ending Balance June 30, 2014 | Due Within One Year |
|--|---------------------------------------|-----------------------|------------------|-------------------------|------------------------------------|---------------------------|
| Long-term Debt | | | | | | |
| Advances for construction, notes and assessments: | | | | | | |
| CA DWR Prop 82 | \$ 1,791,067 | \$ - | \$ - | \$ (157,540) | \$ 1,633,527 | \$ 161,982 |
| CA DWR Prop 204 | 1,134,933 | - | - | (99,827) | 1,035,106 | 102,642 |
| CA DWR Prop 204 (HWFP) | 27,369,504 | - | - | (1,491,322) | 25,878,182 | 1,525,408 |
| San Jacinto Z LLC | 151,032 | - | - | (100,457) | 50,575 | 50,575 |
| SWRCB SRF loan (APAD) | - | - | 43,908,096 | (2,110,632) | 41,797,464 | 2,117,489 |
| SWRCB SRF loan (SCATT) | 38,302,852 | - | - | (3,502,037) | 34,800,815 | - |
| Total notes payable | 68,749,388 | - | 43,908,096 | (7,461,815) | 105,195,669 | 3,958,096 |
| Capital lease obligations | - | 74,975 | - | (19,903) | 55,072 | 13,498 |
| Revenue bonds: | | | | | | |
| 2011A refunding | 48,770,000 | - | - | (6,940,000) | 41,830,000 | 7,665,000 |
| 2012A refunding | 50,000,000 | - | - | - | 50,000,000 | - |
| 2013A refunding | 54,575,000 | - | - | - | 54,575,000 | - |
| 2014A refunding | - | 48,645,000 | - | - | 48,645,000 | - |
| Unamortized premium | 4,303,717 | - | - | (828,590) | 3,475,127 | 828,590 |
| Total revenue bonds | 157,648,717 | 48,645,000 | - | (7,768,590) | 198,525,127 | 8,493,590 |
| Certificates of participation: | | | | | | |
| 2006A | 102,595,000 | - | - | (3,985,000) | 98,610,000 | 4,180,000 |
| 2007A refunding | 20,400,000 | - | - | (85,000) | 20,315,000 | 90,000 |
| 2008A refunding | 55,350,000 | - | - | (290,000) | 55,060,000 | 295,000 |
| 2008C refunding | 52,980,000 | - | - | (5,435,000) | 47,545,000 | - |
| 2008D refunding | 45,175,000 | - | - | - | 45,175,000 | - |
| 2008E refunding | 48,645,000 | - | - | (48,645,000) | - | - |
| 2008G | 50,000,000 | - | - | - | 50,000,000 | - |
| 2008H | 140,035,000 | - | - | - | 140,035,000 | - |
| Net unamort prem/disc | 3,158,874 | - | - | (188,784) | 2,970,090 | 188,784 |
| Total COPs | 518,338,874 | - | - | (58,628,784) | 459,710,090 | 4,753,784 |
| General obligation bonds: | | | | | | |
| 2005 | 14,074,000 | - | - | (555,000) | 13,519,000 | 580,000 |
| 2009 | 26,361,000 | - | - | (1,865,000) | 24,496,000 | 1,940,000 |
| Net unamort prem/disc | 514,446 | - | - | (82,646) | 431,800 | 30,504 |
| Total GO bonds | 40,949,446 | - | - | (2,502,646) | 38,446,800 | 2,550,504 |
| Sub-total | 785,686,425 | 48,719,975 | 43,908,096 | (76,381,738) | 801,932,758 | 19,769,472 |
| Other Noncurrent Liabilities | | | | | | |
| State Revolving Fund construction advances | 142,318,983 | 29,411,230 | (43,908,096) | - | 127,822,117 | - |
| Advances from developers | 20,996,140 | 11,397,314 | - | (8,673,440) | 23,720,014 | 1,103,429 |
| Settlement payable | 2,499 | - | - | (2,499) | - | - |
| Other accrued expenses | 7,858,376 | 2,663,951 | - | (2,570,617) | 7,951,710 | 1,975,479 |
| Compensated absences | 12,652,421 | 9,894,855 | - | (9,136,540) | 13,410,736 | 7,625,285 |
| Net OPEB obligation | 50,212,171 | 10,721,473 | - | (8,594,608) | 52,339,036 | - |
| Fair value of swap contracts | 15,517,588 | - | - | (1,397,158) | 14,120,430 | - |
| Sub-total | 249,558,178 | 64,088,823 | (43,908,096) | (30,374,862) | 239,364,043 | 10,704,193 |
| Total Noncurrent Liabilities | \$1,035,244,603 | \$ 112,808,798 | \$ - | \$ (106,756,600) | \$1,041,296,801 | \$ 30,473,665 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Future principal and interest requirements on all long-term debt as of June 30, 2014 is as follows:

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------------|-----------------------|-----------------------|-------------------------|
| 2015 | \$ 18,721,594 | \$ 20,883,703 | \$ 39,605,297 |
| 2016 | 19,362,325 | 20,242,169 | 39,604,494 |
| 2017 | 20,202,500 | 19,223,323 | 39,425,823 |
| 2018 | 19,031,105 | 18,282,826 | 37,313,931 |
| 2019 | 19,512,931 | 17,365,482 | 36,878,413 |
| 2020-24 | 136,364,722 | 73,659,925 | 210,024,647 |
| 2025-29 | 138,800,214 | 53,399,327 | 192,199,541 |
| 2030-34 | 150,835,350 | 30,701,726 | 181,537,076 |
| 2035-39 | 174,455,000 | 4,517,486 | 178,972,486 |
| 2040-44 | 52,295,000 | 138,868 | 52,433,868 |
| 2045-48 | 45,475,000 | 22,353 | 45,497,353 |
| Sub-total | 795,055,741 | 258,437,188 | 1,053,492,929 |
| Add: Unamortized premium/discount | 6,877,017 | - | 6,877,017 |
| Total | \$ 801,932,758 | \$ 258,437,188 | \$ 1,060,369,946 |

Advances for Construction, Notes and Assessments

Future principal and interest payments on all advances for construction, notes and assessments as of June 30, 2014 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2015 | \$ 3,958,096 | \$ 829,019 | \$ 4,787,115 |
| 2016 | 5,732,868 | 1,125,664 | 6,858,532 |
| 2017 | 5,803,166 | 1,055,366 | 6,858,532 |
| 2018 | 5,874,342 | 984,188 | 6,858,530 |
| 2019 | 5,946,911 | 911,620 | 6,858,531 |
| 2020-24 | 30,529,722 | 3,425,416 | 33,955,138 |
| 2025-29 | 29,990,214 | 1,562,417 | 31,552,631 |
| 2030-33 | 17,360,350 | 304,042 | 17,664,392 |
| Total | \$105,195,669 | \$10,197,732 | \$115,393,401 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Water Conservation Bond Law of 1988 (Proposition 82)

On May 25, 2000, the District executed a loan contract with the State of California Department of Water Resources to provide financing under the Water Conservation Bond Law of 1988 (Proposition 82) for the Sun City Area Pipeline Replacement Projects. The loan to the District is \$3,150,000 repayable in varying semiannual payments including principal and interest ranging from \$103,286 to \$103,299. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8 percent.

Safe, Clean, Reliable Water Supply Act (Proposition 204)

On May 25, 2000, the District executed a loan contract with the State of California Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the Sun City Area Pipeline Replacement projects. The loan to the District is \$2,000,000 repayable in varying semiannual payments including principal and interest ranging from \$65,449 to \$65,456. Semiannual payments began October 1, 2003 with the final payment scheduled for April 1, 2023 at an interest rate of 2.8 percent.

On March 3, 2005, the District executed a loan contract with the State of California Department of Water Resources to provide financing under the Safe, Clean, Reliable Water Supply Act (Proposition 204) for the construction costs of the Hemet Water Filtration Plant. This project was completed in November 2007.

The total loan amount to the District for the Hemet Water Filtration Plant is \$42,098,388 repayable in semiannual payments of approximately \$1,052,460 including principal and imputed interest. The loan contract required that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments, which totaled \$8,419,718. The loan contract carries no stated interest rate, however interest has been imputed at approximately 2.273 percent with calculated amounts ranging from \$11,825 to \$311,011. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

San Jacinto Z LLC Agreement

The Board approved a settlement agreement with San Jacinto Z LLC (SJZ) on November 16, 2011. The agreement provides for the District to pay \$1,000,000 to SJZ, to be amortized in semi-annual payments over 3 years at an interest rate of 0.92 percent. Payments are due by June 1 and December 1 each year until paid in full. In December 2012, the District executed an additional settlement agreement, which included a loan prepayment of \$442,500.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Advances for Construction, Notes and Assessments (continued)

Clean Water State Revolving Fund (SRF)

On June 23, 2009, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund for the construction costs of the Moreno Valley RWRf Secondary Clarifier and Tertiary Treatment Expansion (SCATT) project. Construction for this project was completed in December 2011. The total loan amount to the District is \$38,302,852 repayable in annual payments of approximately \$2,122,225 including principal and interest beginning July 5, 2013 with the final payment scheduled for July 5, 2032. This agreement was partly funded with U.S. American Recovery and Reinvestment Act of 2009 (ARRA) funds which were used to decrease the interest rate to 1.0 percent.

On September 15, 2009, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the Moreno Valley RWRf Acid Phase Anaerobic Digestion (APAD) project. This project consists of upgrading various current and adding new facilities that will result in increased secondary and tertiary treatment capacity for solid waste. Construction for this project was completed in September 2013. The total loan amount to the District is \$43,908,096 repayable in annual payments of \$2,293,874 including principal and interest beginning March 16, 2014 with the final payment scheduled for March 16, 2033.

Clean Water State Revolving Fund (SRF) Construction Advances

On March 23, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the San Jacinto Valley RWRf Title 22 Tertiary Treatment Upgrade and Plant 2 Facilities project. This project consists of modifying and constructing new facilities to increase reliable capacity from 7.5 to 14.0 MGD with improved efficiency and better effluent quality. The agreement provides \$145,000,000 in funding with a future 20-year loan at an interest rate of 2.7 percent. Loan repayment is expected to begin in November 2016. Construction advances and capitalized interest totaling \$110,472,152 for this project were recorded through June 30, 2014.

On August 19, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the Temecula Valley RWRf 18 MGD Reliable Capacity Upgrade project. This project consists of increasing tertiary treatment to comply with reliability standards, effectively attaining the 18 MGD permitted capacity and replacing portions of existing facilities and equipment to improve operational efficiencies. The agreement provides \$18,422,420 in funding with a future 20-year loan at an interest rate of 2.6 percent. Loan repayment is expected to begin in December 2015. Construction advances and capitalized interest totaling \$17,349,965 for this project were recorded through June 30, 2014.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Clean Water SRF Construction Advances (continued)

On May 9 2012, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for construction costs relating to the Enchanted Heights Sewer System project. This project consists of connecting individual residences to a new collection system, including house laterals, and abandoning existing septic tanks. The agreement provides \$5,000,000 in “contingent principal forgiveness” loan funding. The District will be required to repay the principal only if it does not satisfy the conditions for the agreement. The District expects to comply with the terms of the agreement and does not anticipate having to repay the \$5,000,000. Therefore, in accordance with generally accepted accounting principles, funding amounts received during the fiscal year and reimbursable amounts expensed but not claimed as of June 30, 2014 were accounted for as grant revenues and receivables in the financial statements.

Debt service requirements to maturity have not been presented for any of these obligations because they have not yet been determined by the lending party. A schedule of payments will be determined upon completion of the funding for the projects and payments will begin approximately one year after completion of construction.

Revenue Bonds

Future principal and interest payments on all revenue bonds as of June 30, 2014 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|-----------------------|---------------------|-----------------------|
| 2015 | \$ 7,665,000 | \$ 1,798,510 | \$ 9,463,510 |
| 2016 | 8,015,000 | 1,444,835 | 9,459,835 |
| 2017 | 8,420,000 | 1,076,060 | 9,496,060 |
| 2018 | 4,145,000 | 824,760 | 4,969,760 |
| 2019 | 4,310,000 | 609,110 | 4,919,110 |
| 2020-24 | 9,275,000 | 782,393 | 10,057,393 |
| 2025-29 | 20,285,000 | 289,450 | 20,574,450 |
| 2030-34 | 23,705,000 | 224,632 | 23,929,632 |
| 2035-39 | 60,585,000 | 134,541 | 60,719,541 |
| 2040-44 | 22,600,000 | 21,033 | 22,621,033 |
| 2045-48 | 26,045,000 | 6,627 | 26,051,627 |
| Sub-total | 195,050,000 | 7,211,951 | 202,261,951 |
| Add: Unamortized premium | 3,475,127 | - | 3,475,127 |
| Total | <u>\$ 198,525,127</u> | <u>\$ 7,211,951</u> | <u>\$ 205,737,078</u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Revenue Bonds

2011A Refunding Revenue Bonds

In July 2011, the Facilities Corporation issued \$56,225,000 in Refunding Revenue Bonds, Series 2011A. The net proceeds were used to pay the costs of executing and delivering the 2011A Bonds, provide \$4.8 million capital project funding, and to refund the certificates of participation shown in the following table.

| Prepaid Certificates | Principal Prepaid/Retired | Use of Proceeds |
|------------------------------|---------------------------|---------------------------------|
| 2011A Refunding Certificates | \$ 40,175,000 | Deposited in 1991A Escrow Fund |
| 2011C Refunding Certificates | 3,470,000 | Deposited in 1993A Escrow Fund |
| 2008D Refunding Certificates | 8,180,000 | Retired COPs maturing 2012-2016 |
| 2008E Refunding Certificates | 10,005,000 | Retired COPs maturing 2012-2016 |

The 2011A Bonds include principal installments due in varying amounts from \$4,145,000 to \$8,420,000 annually from July 1, 2012 to July 1, 2020, with interest payable semiannually at varying rates from 2.00 to 5.00 percent per annum.

2012A Refunding Revenue Bonds

In July 2012, the Facilities Corporation issued \$50,000,000 in Refunding Revenue Bonds, Series 2012A. The net proceeds were used to pay the costs of executing and delivering the 2012A Bonds, provide \$4.9 million capital project funding, and to advance refund the 2008F Certificates of Participation. The 2012A Bonds were issued to decrease interest costs relating to the 2008F Certificates and to eliminate counterparty risk, because the 2012A Bonds do not require a liquidity bank agreement.

The proceeds of the 2012A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008F Certificates and subsequently, all Certificates were redeemed on July 19, 2012. As a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The reacquisition price equaled the net carrying amount of the old debt, so the calculated deferred cost on refunding was zero. In addition, the present value of the debt service payments on the old and new debt was equal, so there was no economic gain with this refunding.

The 2012A Bonds include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038, with interest payable monthly at an interest rate level initially set equivalent to a Securities Industry and Financial Market Association (SIFMA)-indexed rate plus 0.02 percent. In May 2014, the interest rate on the 2012A Bonds was reset at the SIFMA rate plus 0.01 percent. The interest rate on the 2012A Bonds resets each time the Bonds are remarketed, which is no less frequently than every 13 months. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.05 percent. The average annual interest rate experienced in the fiscal year was 0.07 percent and the actual interest paid was \$33,005 for the fiscal year.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Revenue Bonds (continued)

2013A Refunding Revenue Bonds

In March 2013, the Facilities Corporation issued \$54,575,000 in Refunding Revenue Bonds, Series 2013A. The net proceeds were used to pay the costs of executing and delivering the 2013A Bonds, provide \$4.0 million capital project funding, and advance refund the 2008B Refunding Certificates of Participation. The 2013A Bonds were issued to decrease interest costs relating to the 2008B Certificates and to eliminate counterparty risk, because the 2013A Bonds do not require a liquidity bank agreement.

The proceeds of the 2013A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008B Certificates and subsequently, all Certificates were redeemed on March 25, 2013. As a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The reacquisition price equaled the net carrying amount of the old debt, so the calculated deferred cost on refunding was zero. In addition, the present values of the debt service payments on the old and new debt were equal, so there was no economic gain with this refunding.

The 2013A Bonds include principal installments due in varying amounts from \$3,805,000 to \$5,370,000 annually from July 1, 2024 to July 1, 2035, with interest payable monthly at an interest rate level equivalent to a SIFMA-indexed rate plus 0.02 percent. The interest rate on the 2013A Bonds resets each time the 2013A Bonds are remarketed, which is generally every 90 – 270 days. In June 2014, the interest rate on the 2013A Bonds was reset at the SIFMA rate plus 0.02 percent. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.06 percent. The average annual interest rate experienced in the fiscal year was 0.08 percent and the actual interest paid was \$43,645 for the fiscal year.

2014A Refunding Revenue Bonds

In June 2014, the District issued \$48,645,000 in Refunding Revenue Bonds, Series 2014A. The net proceeds were used to pay the costs of executing and delivering the 2014A Bonds, and advance refund the 2008E Refunding Certificates of Participation. The 2014A Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, provides for lower debt service from 2014 through 2019, and releases \$4.5 million in reserves for use to fund capital projects, and is supported by a new standby liquidity agreement at a reduced cost.

The proceeds of the 2014A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008E Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The transactions reduced annual debt service payment by \$2.0 to \$2.2 million from 2018 through 2034 and resulted in no economic loss other than the cost to underwrite. The reacquisition price equaled the net carrying amount of the old debt.

The 2014A Bonds include principal installments due in varying amounts from \$5,350,000 to \$6,860,000 annually from July 1, 2040 to July 1, 2047, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2014, which was 0.01 percent. There has been no interest payment made on this bond as of June 30, 2014.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation

Future principal and interest payments on total certificates of participation as of June 30, 2014 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| 2015 | \$ 4,565,000 | \$ 16,397,112 | \$ 20,962,112 |
| 2016 | 4,645,000 | 15,884,419 | 20,529,419 |
| 2017 | 4,970,000 | 15,349,249 | 20,319,249 |
| 2018 | 7,960,000 | 14,777,947 | 22,737,947 |
| 2019 | 8,170,000 | 14,197,482 | 22,367,482 |
| 2020-24 | 90,370,000 | 62,019,876 | 152,389,876 |
| 2025-29 | 81,620,000 | 45,720,254 | 127,340,254 |
| 2030-34 | 101,300,000 | 26,290,773 | 127,590,773 |
| 2035-39 | 105,595,000 | 2,878,745 | 108,473,745 |
| 2040-44 | 28,115,000 | 73,398 | 28,188,398 |
| 2045-48 | 19,430,000 | 15,726 | 19,445,726 |
| Sub-total | 456,740,000 | 213,604,981 | 670,344,981 |
| Add: Unamortized premium/discount | 2,970,090 | - | 2,970,090 |
| Total | <u>\$ 459,710,090</u> | <u>\$ 213,604,981</u> | <u>\$ 673,315,071</u> |

2006A Certificates of Participation

In February 2006, the Facilities Corporation issued \$106,320,000 in Certificates of Participation, Series 2006A. Proceeds of the sale of certificates were used for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2006A Projects. The 2006A Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) convert the Hemet/San Jacinto RWRf to tertiary; (2) expand the capacity of the Perris Valley RWRf; (3) add clarifiers to the Perris Valley RWRf; (4) expand the capacity of the North San Jacinto Sewer System; (5) replace certain digester gas facilities at certain wastewater treatment plants; and (6) add a desalter pretreatment facility.

The 2006A Certificates include principal installments due in varying amounts from \$2,965,000 to \$6,350,000 annually from July 1, 2013 to July 1, 2035, with interest payable semiannually at rates per annum ranging from 3.75 percent to 5.00 percent.

2007A Refunding Certificates of Participation

In May 2007, the Facilities Corporation issued \$20,710,000 in Refunding Certificates of Participation, Series 2007A. The net proceeds of \$22,274,458 were used to currently refund the District's 1997A certificates for \$21,175,000, and to pay the municipal bond insurance policy premium and issuance costs.

The 2007A Certificates include principal installments due in varying amounts from \$85,000 to \$6,860,000 annually from July 1, 2013 to July 1, 2023, with interest payable semiannually at rates ranging from 4.00 percent to 5.00 percent.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008A Refunding Certificates of Participation

In January 2008, the Facilities Corporation issued \$56,855,000 in Refunding Certificates of Participation, Series 2008A. The net proceeds of \$61,977,243 were used to advance refund the 2001B Certificates in the amount of \$51,370,000 maturing July 1, in the years 2024 through 2030, to fund a debt service reserve fund for the 2008A Certificates, and to pay the costs of executing and delivering the 2008A Certificates. The proceeds of the 2008A Certificates were deposited in an irrevocable trust with an escrow agent to provide for repayment of the outstanding 2001B Certificates. As a result, the 2001B Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

The 2008A Certificates include principal installments due in varying amounts from \$290,000 to \$8,090,000 annually from July 1, 2013 to July 1, 2030, with interest payable monthly at a variable rate for a weekly period. The average annual interest rate experienced in the fiscal year was 0.04 percent and the actual interest paid was \$21,073 plus an additional \$1,522,679 to the counterparty.

The following table incorporates the net swap payments associated with the 2008A Certificates and the related financial instrument. Using a variable interest rate of 0.03 percent as of June 30, 2014, the debt service requirements of the 2008A Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to Note 6 to the basic financial statements for additional information regarding the financial instrument associated with the 2008A Certificates.

| Year Ending June 30: | Principal | Interest | Net Payment to Counterparty | Total |
|-------------------------------------|----------------------|-------------------|--|----------------------|
| 2015 | \$ 295,000 | \$ 16,437 | \$ 1,643,874 | \$ 1,955,311 |
| 2016 | 305,000 | 16,372 | 1,634,661 | 1,956,033 |
| 2017 | 310,000 | 16,227 | 1,625,546 | 1,951,773 |
| 2018 | 330,000 | 16,154 | 1,615,608 | 1,961,762 |
| 2019 | 335,000 | 16,054 | 1,605,570 | 1,956,624 |
| 2020-24 | 1,845,000 | 78,675 | 7,865,873 | 9,789,548 |
| 2025-29 | 35,710,000 | 48,855 | 4,689,210 | 40,448,065 |
| 2030-32 | 15,930,000 | 2,820 | 282,575 | 16,215,395 |
| Total | \$ 55,060,000 | \$ 211,594 | \$ 20,962,917 | \$ 76,234,511 |

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008C Refunding Certificates of Participation

In June 2008, the Facilities Corporation issued \$54,400,000 in Refunding Certificates of Participation, Series 2008C. The net proceeds of \$57,189,288 were used to advance refund the District's outstanding 1993B Certificates in the amount of \$55,445,000 maturing July 1, in the years 2008 through 2020, to fund a debt service reserve fund for the 2008C Certificates, and to pay the costs of executing and delivering the 2008C Certificates.

The 2008C Certificates include principal installments due in varying amounts from \$5,435,000 to \$7,955,000 annually from July 1, 2013 to July 1, 2020, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$23,143 plus an additional \$2,308,374 to the counterparty.

The table on the following page incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.05 percent as of June 30, 2014, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to Note 6 to the basic financial statements for additional information regarding the financial instrument associated with the 2008C Certificates. On June 10, 2014, the 2008C COP were remarketed, and the principal payment schedule was amended to begin principal payments in 2040 (last payment in fiscal year ending 2047). The swap agreement was unchanged and therefore net payment to counterparty is based upon the original debt service schedule whereas the principal and interest amendments to the 2008C COP are reflected in the schedule.

| Year Ending June 30: | Principal | Interest | Net Payment to Counterparty | Total |
|----------------------------|---------------|------------|-----------------------------------|---------------|
| 2015 | \$ - | \$ 19,018 | \$ 2,047,557 | \$ 2,066,575 |
| 2016 | - | 19,018 | 1,754,742 | 1,773,760 |
| 2017 | - | 19,018 | 1,446,332 | 1,465,350 |
| 2018 | - | 19,018 | 1,120,740 | 1,139,758 |
| 2019 | - | 19,018 | 777,198 | 796,216 |
| 2020-24 | - | 95,090 | 446,482 | 541,572 |
| 2025-29 | - | 95,090 | - | 95,090 |
| 2030-34 | - | 95,090 | - | 95,090 |
| 2035-39 | - | 95,090 | - | 95,090 |
| 2040-44 | 28,115,000 | 73,398 | - | 28,188,398 |
| 2045-47 | 19,430,000 | 15,726 | - | 19,445,726 |
| Total | \$ 47,545,000 | \$ 564,574 | \$ 7,593,051 | \$ 55,702,625 |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008D Refunding Certificates of Participation

In July 2008, the Facilities Corporation issued \$54,760,000 in Refunding Certificates of Participation, Series 2008D. The net proceeds of \$57,942,400 were used to advance refund the District's outstanding 1998A and 2003A Certificates in the amounts of \$27,265,000 and \$24,260,000, respectively, maturing July 1, in the years 2009 through 2023, to fund a debt service reserve fund for the 2008D Certificates, and to pay the costs of executing and delivering the 2008D Certificates. The proceeds of the 2008D Certificates were deposited in irrevocable trusts with an escrow agent for the payment of the 1998A and 2003A Certificates and subsequently, all 1998A and 2003A Certificates were redeemed on September 2, 2008. As a result, these 1998A and 2003A Series Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

In July 2011, the District issued \$56,255,000 Refunding Revenue Bonds Series, 2011A. A portion of the net proceeds of the 2011A Bonds was used to prepay the 2008D principal installments due and payable on or before July 1, 2016 totaling \$8,180,000.

The remaining 2008D Certificates include principal installments due in varying amounts from \$2,645,000 to \$11,820,000 annually from July 1, 2017 to July 1, 2023, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the remaining certificates at any time at par. The future interest amounts are calculated using the interest rate in effect at June 30, 2014, which was 0.04 percent. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$21,969 and \$55,865 for the fiscal years ended June 30, 2014 and June 30, 2013, respectively.

2008E Refunding Certificates of Participation

In July 2008, the Facilities Corporation issued \$64,110,000 in Refunding Certificates of Participation, Series 2008E. The net proceeds of \$68,541,548 were used to advance refund the District's outstanding 2003B Certificates in the amount of \$62,815,000 maturing July 1, 2033, to fund a debt service reserve fund for the 2008E Certificates, and to pay the costs of executing and delivering the 2008E Certificates. The proceeds of the 2008E Certificates were deposited in an irrevocable trust with an escrow agent for the payment of the 2003B Certificates and subsequently, all 2003B Certificates were redeemed on September 2, 2008. As a result, the 2003B Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

In July 2011, the District issued \$56,255,000 Refunding Water and Sewer Revenue Bonds Series, 2011A. A portion of the net proceeds of the 2011A Bonds was used to prepay the 2008E principal installments due and payable on or before July 1, 2016 totaling \$10,005,000.

In June 2014, the District issued \$48,645,000 in Refunding Revenue Bonds, Series 2014A. The net proceeds (after cost of issuance) were used to prepay the remaining outstanding 2008E Certificates and were deposited in an irrevocable trust with an escrow agent. This was done to improve the debt service coverage, provides lower debt service from 2014 to 2019, and release \$4.5 million in reserves for use in capital projects. The 2008E Certificates are considered defeased and the liability for these Certificates has been removed from the Statement of Net Position.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Certificates of Participation (continued)

2008G Certificates of Participation

In July 2008, the Facilities Corporation issued \$50,000,000 in Certificates of Participation, Series 2008G. Proceeds of the sale of certificates were for the principal purpose of financing a portion of the cost of the design, acquisition and construction of the 2008G Projects, including an undivided 50 percent interest in, among others, the following capital improvements to the District's Water and Sewer System: (1) expansion of the Cactus Ave Feeder and Pump Station; (2) construction of a portion of the San Jacinto Valley Interceptor Sewer Pipeline; (3) construction of the Western Way Pump Station; (4) construction of the Perris Water Filtration Plant State Project Water Supply Pipeline and installation of a new service connection "EM-22" from MWD; and (5) construction of the Oleander Pump Station Transmission Pipeline.

The 2008G Certificates include principal installments due in varying amounts from \$16,000,000 to \$17,290,000 annually from July 1, 2036 to July 1, 2038, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The future interest amounts are calculated using the interest rate in effect at June 30, 2014, which was 0.01 percent. The average annual interest rate experienced in the fiscal year was 0.05 percent and the actual interest paid was \$23,740 and \$60,629 for the fiscal years ended June 30, 2014 and June 30, 2013, respectively.

2008H Certificates of Participation

In August 2008, the Facilities Corporation issued \$140,035,000 in Certificates of Participation, Series 2008H. Proceeds of the sale of the certificates were for financing a portion of the cost of the design, acquisition and construction of the 2008H Projects. The 2008H Projects include, among others, the following capital improvements to the District's Water and Sewer System: (1) construct new and replacement improvements to the Hemet/San Jacinto Integrated Recharge and Recovery Program; (2) expand the Perris Valley RWRP (Plant 3); and (3) add the Scott Road Booster and Pipeline to the Keller 1698 Power Zone.

The 2008H Certificates include principal installments due in varying amounts from \$5,185,000 to \$23,470,000 annually from July 1, 2024 to July 1, 2035, with interest payable semiannually beginning July 1, 2009, at a 5.00 percent rate per annum.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds

Future principal and interest payments on total general obligation bonds as of June 30, 2014 are as follows:

| Year Ending June 30: | Principal | Interest | Total |
|-----------------------------------|----------------------|----------------------|----------------------|
| 2015 | \$ 2,520,000 | \$ 1,855,658 | \$ 4,375,658 |
| 2016 | 955,000 | 1,784,807 | 2,739,807 |
| 2017 | 995,000 | 1,741,233 | 2,736,233 |
| 2018 | 1,040,000 | 1,695,407 | 2,735,407 |
| 2019 | 1,085,000 | 1,647,265 | 2,732,265 |
| 2020-24 | 6,190,000 | 7,432,240 | 13,622,240 |
| 2025-29 | 6,905,000 | 5,827,206 | 12,732,206 |
| 2030-34 | 8,470,000 | 3,882,280 | 12,352,280 |
| 2035-39 | 8,275,000 | 1,504,200 | 9,779,200 |
| 2040 | 1,580,000 | 44,437 | 1,624,437 |
| Sub-total | 38,015,000 | 27,414,733 | 65,429,733 |
| Add: Unamortized premium/discount | 431,800 | - | 431,800 |
| Total | <u>\$ 38,446,800</u> | <u>\$ 27,414,733</u> | <u>\$ 65,861,533</u> |

The District's general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2014, general obligation bonds authorized but not issued total \$547,650,000.

2005A General Obligation Bonds

In May 2005, the Western Riverside Water and Wastewater Financing Authority issued \$18,255,000 of Improvement Districts General Obligation Bonds, Series 2005A. Proceeds of the sale of the 2005A GO Bonds were used to purchase twenty separate issues of general obligation bonds on behalf of the improvement districts. These Bonds were issued to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the 2005A GO Bonds.

The 2005A GO Bonds include principal installments due in varying amounts from \$555,000 to \$810,000 annually from September 1, 2013 to September 1, 2035 with interest paid semiannually on March 1 and September 1 of each year at rates ranging from 3.00 percent to 5.00 percent per annum.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

General Obligation (GO) Bonds (continued)

2009 General Obligation Bonds

In August 2009, the Western Riverside Water and Wastewater Financing Authority issued \$31,625,000 of Improvement Districts General Obligation Bonds, Series 2009. Proceeds of the sale of the 2009 GO Bonds were used to purchase eleven separate issues of general obligation bonds on behalf of the improvement districts. These Bonds were issued to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the 2009 GO Bonds.

The 2009 GO Bonds include principal installments due in varying amounts \$1,865,000 to \$1,580,000 annually from September 1, 2013 to September 1, 2039 with interest paid semiannually on March 1 and September 1 of each year at rates ranging from 3.000 percent to 5.625 percent per annum.

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation and certain loans in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment sale payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2014 for each outstanding debt issue is as follows:

| Description | Required | Actual | Excess |
|----------------------------|----------------------|----------------------|-------------------|
| 2006A COP | \$ 8,613,961 | \$ 8,639,592 | \$ 25,631 |
| 2007A COP | 3,661,088 | 3,852,604 | 191,516 |
| 2008A COP | 5,651,000 | 5,667,209 | 16,209 |
| 2008D COP | 5,476,000 | 5,533,360 | 57,360 |
| 2008G COP | 5,000,000 | 5,031,145 | 31,145 |
| 2008H COP | 14,003,500 | 14,007,474 | 3,974 |
| Subtotal - COPs | 42,405,549 | 42,731,384 | 325,835 |
| Prop. 82 loan - \$3.15M | 212,545 | 212,621 | 76 |
| Prop. 204 loan - \$2.00M | 134,955 | 135,005 | 50 |
| Prop. 204 loan - \$42.10M* | 1,280,493 | 1,281,004 | 511 |
| Subtotal - Loans | 1,627,993 | 1,628,630 | 637 |
| Total | \$ 44,033,542 | \$ 44,360,014 | \$ 326,472 |

**The total required reserve per loan agreement is \$2,104,920. Half of this amount is required to be and was deposited by the first of ten semi-annual payments (July 1, 2013) and the remainder of the balance is required to be deposited by the tenth year of repayment period (approximately July 1, 2018).*

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

5. Noncurrent Liabilities (continued)

Master Resolution

The District adopted Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer Revenues" (the "Master Resolution") to establish various reserves and covenants of which the following are required to be maintained:

1) Debt Coverage Ratio

The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2014, the District's parity obligation debt service coverage ratio was 2.1 times.

2) Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amounts at June 30, 2014 and 2013 were \$39,394,828 and \$38,365,185, respectively. The actual reserve balances at June 30, 2014 and 2013 were \$41,247,723 and \$38,139,186, respectively.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2014, is \$197,780,000 Variable Rate Certificates of Participation, Series 2008A, 2008C, 2008D, 2008E, 2008G, and 2014A Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for certificate holders, on 7 days notice, to tender their certificates/bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2014, there were no outstanding certificates or bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2014 for each Supported Variable Rate Debt is:

| Description | SPA Bank | SPA Expiration Date |
|--------------------|--------------------------------|--------------------------------|
| 2008A COP | Wells Fargo Bank, N.A. | 1/31/2015 |
| 2008C COP | Mizuho Corporate Bank, Ltd. | *6/01/2014 |
| | U.S. Bank National Association | 10/06/2017 |
| 2008D COP | U.S. Bank National Association | 1/31/2015 |
| 2008E COP | Wells Fargo Bank, N.A. | **06/10/2014 |
| 2008G COP | Mizuho Corporate Bank, Ltd. | 6/26/2015 |
| 2014A Bond | Wells Fargo Bank, N.A. | 06/12/2017 |

*Substituted with agreement with US Bank National Association

** 2008E Certificates were advanced refunded and considered defeased in June 2014, by the issuance of 2014A Refunding Revenue Bond.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding subject to the requirements of Governmental Accounting Standards Board Statement No. 53 at June 30, 2014, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

| | Changes in Fair Value | | Fair Value at June 30, 2014 | | Notional |
|--|-----------------------|---------------|-----------------------------|----------------|---------------|
| | Classification | Amount | Classification | Amount | |
| Cash flow hedges: | | | | | |
| (2008A COP) Pay-fixed interest rate swap | | | | | |
| Deferred outflow | | \$ 386,525 | Debt | \$ (7,810,487) | \$ 55,060,000 |
| (2008C COP) Pay-fixed interest rate swap – cost of funds | | | | | |
| Deferred outflow | | \$(1,783,683) | Debt | \$ (6,309,943) | \$ 45,385,000 |

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by each swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding COP debt. The District realized greater interest savings from debt refinancing by issuing variable interest rate debt along with the financial instruments than would have been realized had the District issued conventional COP debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2014, along with the credit rating of the associated counterparty.

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|--|--|-----------------|----------------|---------------|---|----------------------------|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2008A COP debt issue | \$ 55,060,000 | 1/31/2008 | 7/1/2030 | Pay 3.1%; receive 66% of 1-month LIBOR from UBS | S&P: A Moody's: A2 |
| Pay-fixed interest rate swap – cost of funds | Hedge of changes in cash flows on the 2008C COP debt issue | \$ 45,385,000 | 6/1/08 | 7/1/2020 | Pay 5.135%; receive the variable rate on the EMWD 2008C COPs from AIG | S&P: A- Moody's: Baa1 |

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

6. Interest Rate Swap Contracts (continued)

Credit Risk

The counterparty credit ratings as of June 30, 2014 are shown in the table on the previous page. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for UBS either met or exceeded these rating requirements at June 30, 2014; the counterparty credit ratings for AIG were split with the S&P rating exceeding the rating requirement and the Moody's rating being below the rating requirement. As noted below and in the Subsequent Events (Note 15), the District is considering options to novate the swap contracts to a new counterparty with higher credit ratings.

Interest Rate Risk

The District is exposed to interest rate risk on its financial instruments. As the 1-month LIBOR or the variable interest rate on the 2008C COP decreases, the District's net payment on the swap increases.

Basis Risk

The financial instruments expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payment to be made on the debt. The District pays the counterparty a fixed rate of 3.10 percent and receives 66 percent of 1-month LIBOR rate for the 2008A COP financial instrument, which may be different from the variable rate payments made on the 2008A COP debt. The District is at risk that the variable interest rate payments received from the counterparty will be less than the variable rate payments owed on the 2008A COP debt. For the 2008C COP financial instrument, the District and counterparty pay the same rate, so there is no basis risk.

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2008A and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. As of June 30, 2014 and June 30, 2013, the financial instruments had a combined negative fair value of \$14,120,430 and \$15,517,588, respectively. The District is considering options to novate the swap contracts to a new counterparty under substantially similar terms.

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2014, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$14,120,430. If the collateral posting requirements were triggered at June 30, 2014, the District would be required to post \$14,120,430 to its counterparties. The District's credit rating for the 2008A and 2008C Certificates is AA+/Aa2/AA by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2014.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

7. Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, 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 of California. Copies of PERS' annual financial report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

All full-time and certain part-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service. For employees hired prior to November 4, 2010, the maximum amount is 2.5 percent, and for employees hired on or after this date and before January 1, 2013, this amount is 2.0 percent.

Employees hired on or after January 1, 2013 who generally have not already been a member of a pension system are subject to the California Public Employees' Pension Reform Act of 2013 (PEPRA), which was signed by the governor on September 12, 2012. This legislation established a third pension tier of 2.0 percent at age 62 with a maximum benefit formula of 2.5 percent at age 67. Benefits for this tier are calculated on the highest average annual compensation over a consecutive thirty-six-month period.

Funding Policy

The required employer contribution rate is 15.344 percent, as determined by the annual PERS valuation. However, in July 2013, the District prepaid the required contribution as a lump-sum discounted amount of \$7,695,750, which reduced the effective employer contribution rate by \$283,373.

For the 2.5 percent at 55 plans, District employees are required to contribute 8 percent of their annual salary to PERS. Of this 8 percent, the District funds 6.5 percent as agreed to in negotiations with its union. Total required employee contribution for the fiscal year ended June 30, 2014 was \$3,536,624; and of this amount, the District contributed \$2,940,712 on behalf of employees. Total required employee contribution for the fiscal year ended June 30, 2013 was \$3,601,660; and of this amount, the District contributed \$3,151,453 on behalf of employees.

For the 2.0 percent at 55 plan (employees hired after November 2010), District employees are required to contribute 7 percent of their annual salary to PERS. Of this 7 percent, the District funds 3 percent as agreed to in negotiations with its union. Total employee required contribution for the fiscal year ended June 30, 2014 was \$238,485; and of this amount the District contributed \$102,208 on behalf of employees. Total employee required contribution for the fiscal year ended June 30, 2013 was \$182,598; and of this amount the District contributed \$78,256 on behalf of employees.

The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Division.

Eastern Municipal Water District Notes to the Basic Financial Statements

(continued)

7. Defined Benefit Pension Plan (continued)

Funding Policy (continued)

For the 2.0 percent at 62 plan (employees hired after January 2013), District employees are required to contribute 6.25 percent of their annual salary to PERS. Employees are responsible for the entire 6.25% (as agreed to in negotiations with its unions, effective July 28, 2013). Total employee required contribution for the fiscal year ended June 30, 2014 was \$40,956; the amount contributed by the District on behalf of the employees (for pay periods prior to July 28, 2014) was \$568. Total employee required contribution for the fiscal year ended June 30, 2013 was \$2,133; and of this amount the District contributed \$768 on behalf of employees.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2011. The contribution rate for the indicated period is 15.344 percent of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014.

A summary of principal assumptions and methods used to determine the ARC is shown below.

| | |
|----------------------------|--|
| Valuation date | June 30, 2011 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Average remaining period | 23 years as of the valuation date |
| Asset valuation method | 15 year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% (net of administrative expenses) 3.55% to 14.45% depending on age, service, and type of employment |
| Projected salary increases | |
| Inflation rate | 3.00% |
| Payroll growth | 3.25% |
| Individual salary growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. |

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6 percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

7. Defined Benefit Pension Plan (continued)

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. The District's specific three-year trend information follows:

Three-year trend information for PERS (dollar amounts in millions):

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------|---------------------------------|-------------------------------------|------------------------------|
| 06/30/12 | \$ 10.95 | 100% | \$ - |
| 06/30/13 | 10.24 | 100% | - |
| 06/30/14 | 10.74 | 100% | - |

The schedule of funding progress for PERS (dollar amounts in millions), presented as required supplementary information following the notes to the 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 liability. The following schedule shows this information from the most current valuation available from PERS.

| Actuarial Valuation Date | (A) Entry Age Actuarial Accrued Liability (AAL) | (B) Actuarial Value of Assets | (C) Unfunded AAL (UAAL) (A)-(B) | Actuarial Funded Ratio (B)/A) | (D) Covered Payroll | UAAL as a Percentage of Covered Payroll (C)/(D) |
|--------------------------------|--|--|--|-------------------------------------|---------------------------|---|
| 06/30/12 | \$ 294.70 | \$ 237.98 | \$ 56.71 | 80.8% | \$ 47.99 | 118.2% |

8. Defined Contribution Plan

The District maintains the EMWD Security Trust 401a Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401a Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 401a Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contributions to the 401a Plan were \$731,090 and \$716,696 in fiscal years ended June 30, 2014 and 2013, respectively.

In July 2011, the District executed a plan amendment to its 401a Plan to provide for a contribution to this 401a Plan on behalf of the General Manager in accordance with his employment contract. Contributions to this 401a Plan were \$35,661 and \$22,769 in fiscal years ended June 30, 2014 and 2013, respectively.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

9. Postemployment Benefits Other Than Pensions

Plan Description

Health Care Benefits - The District provides postemployment health care benefits to all qualified employees who meet the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code Section 22893 (Vesting for Contracting Agency Employees). This amount of District's contribution varies according to the retiree's medical benefit tiers as follow:

Tier 1 (hired prior to 8/1/05) – District pays up to the greater of Blue Shield or Kaiser Southern CA non-Medicare (basic) premium coverage, less retiree cost-sharing contributions. The cost-sharing monthly contribution is up to \$43.33 for family coverage and required starting on December 16, 2014 and \$86.67 starting on December 16, 2015.

Tier 2 (hired from 8/1/05 to 3/26/14) – District pays the greater of Tier 1 contribution (after cost sharing) or PEMHCA published average of the four health benefit plans that had the largest state enrollment, multiplied by vesting percentage according to PEMHCA section 22893. Vesting percentages range from 50% to 100% for retirees with CalPERS service of 10 year to 20 years or more. Under the PEMHCA section 22893 the District's monthly contribution for Tier 2 is up to \$1,515 and \$1,559 in 2013 and 2014.

Tier 3 (hired after 3/26/14) – District's contribution is PEMHCA minimum amount of \$115/month and \$119/month in 2013 and 2014.

The District also provides healthcare benefits to elected official retirees in accordance with the District's Ordinance No. 70. This plan contributes up to the District's contribution amount for employees and dependent coverage.

Life Insurance Benefits - In addition, the District provides postemployment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for retired employees; and a death benefit of \$5,000 up to age 70 and \$2,500 thereafter for elected officials.

The benefit provisions for retired employee health care and life insurance are established and amended through the memorandum of understanding between the District and the Union. The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost

Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. The contribution requirements of the District for retired elected officials may be amended through Board action to update Ordinance 70, for the health benefit plan, or with the life insurance company, for the life insurance benefits. 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 the parameters of GASB Statement No. 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 actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's policy is to continue to fund costs on a pay-as-you-go basis and to prefund a portion of the unfunded actuarial liability as part of a long-term financial planning strategy. On April 18, 2012, the District's Board of Directors adopted a resolution to establish an OPEB Trust and to authorize an agreement with PERS to join the California Employers' Retiree Benefit Trust (CERBT) Program. On June 12, 2012, the District joined the CERBT Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. PERS issues a publicly available financial report that includes financial statements and required supplementary information relating to the CERBT Program. The report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

On April 18, 2012, the Board of Directors approved an initial prefunding amount of ten percent of the property tax revenues received in the prior fiscal year. This amount was calculated as \$2,724,025 based on fiscal year ended June 30, 2013 revenues. In addition to this payment, the District contributed annual estimated pay-as-you-go costs totaling \$3,399,110 to the CERBT Program to maximize investment earnings on these funds. Both of these contributions were made in July 2013. The District continued to fund annual pay-as-you-go costs directly and in July 2014, requested reimbursement from CERBT for actual fiscal year pay-as-you-go contributions made during the fiscal year ended June 30, 2014.

The District's annual OPEB cost for the current year, the amount actually contributed, the changes in net OPEB obligation, and the related information for each plan are shown in the table on the following page. Net OPEB expense, calculated as annual OPEB cost less the implied subsidy and pay-as-you-go amount contributed to the CERBT Program, is included in operating expenses in the accompanying financial statements. The Net OPEB obligation is shown as a separate item in noncurrent liabilities section in the accompanying financial statements.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funding Policy and Annual OPEB Cost (continued)

Contribution rates:

District 100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums; additionally prefund \$2,724,025 with CERBT for FY2013/14.

Plan members Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser

| | |
|--|----------------------------|
| Annual required contribution (ARC) | \$8,469,000 |
| Interest on net OPEB obligation (NOO) | 2,887,000 |
| Amortization on NOO | <u>(2,998,000)</u> |
| Annual OPEB cost | 8,358,000 |
| Contributions made | (6,123,135) |
| Implied subsidy benefit payments | <u>(108,000)</u> |
| Increase in net OPEB obligation | 2,126,865 |
| Net OPEB obligation – beginning of year | <u>50,212,171</u> |
| Net OPEB obligation – end of year | <u>\$52,339,036</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2012 through 2014 are shown in the following table.

| Plan | Year Ended | Annual OPEB Cost | Actual Contributions | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------------|------------|---------------------|-------------------------|---|------------------------|
| Retired Employees/Elected | 06/30/12 | \$ 15,286,000 | \$ 2,620,589 | 17.1% | \$ 44,191,171 |
| Officials Healthcare and Life | 06/30/13 | 11,852,000 | 5,740,000 | 48.4% | 50,212,171 |
| Insurance Plans | 06/30/14 | 8,358,000 | 6,231,135 | 74.55% | 52,339,036 |

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2013, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the 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 liability.

| | |
|--|--------------|
| Actuarial accrued liability (a) | \$ 94,723 |
| Actuarial value of plan assets (b) | <u>6,956</u> |
| Unfunded actuarial accrued liability (funding excess) (a) – (b) | \$ 87,767 |
| Funded ratio (b)/(a) | 7.0% |
| Covered Payroll – active plan members (c) | \$ 51,485 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a)-(b))/(c) | 170.5% |

Eastern Municipal Water District

Notes to the Basic Financial Statements

(continued)

9. Postemployment Benefits Other Than Pensions (continued)

Funded Status and Funding Progress (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial valuations involve the use of future estimates that are subject to continual revision. These calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

| | | | |
|--------------------------------|---|--|------------------------|
| Valuation date | June 30, 2013 | | |
| Actuarial cost method | Entry age normal | | |
| Amortization method | Level percent of payroll | | |
| Remaining amortization period | 26 years as of the valuation date | | |
| Asset valuation method | Gains and losses spread over a 5-year rolling period | | |
| Actuarial assumptions: | | | |
| Pre-funding | 10% of property tax revenue, grading to full ARC less expected benefit payments for 2023/24 | | |
| Investment rate of return | Ranges from 5.75% in 2013/14 to 7.25% in 2030/31 | | |
| General inflation rate | 3.00% | | |
| Payroll growth | 3.25% | | |
| Healthcare cost trend rate | Fiscal | <u>(% Increase Over Prior Year)</u> | |
| | <u>Year</u> | <u>Non-Medicare</u> | <u>Medicare</u> |
| | 2013 | Actual PEMHCA ¹ / Kaiser A Premiums | |
| | 2014 | Actual PEMHCA / Kaiser A Premiums | |
| | 2015 | 8.0% | 8.3% |
| | 2014-2021 | Decreases 0.5% | Decreases 0.5% to |
| | 2021+ | each year 5.0% | 0.6% each year 5.0% |
| | <u>Active</u> | <u>Retired</u> | <u>Total</u> |
| Plan participants ² | 617 | 354 | 971 |

1. PEHMCA relates to the Public Employees' Medical and Hospital Care Act.
2. Employees must retire from the District to receive OPEB benefits.

Initial unfunded liabilities are amortized over a fixed (closed) 30-year period. This period was restarted for the June 30, 2008 valuation. When the amortization period reaches 15 years, new gains and losses will be amortized over a rolling (open) 15-year period and plan and assumption changes will be amortized over a fixed (closed) 20-year-year period.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

10. Restricted and Unrestricted Net Position

Restricted Net Position

Restricted for debt service/covenants represents constraints placed on certain net position as required by the District's Master Resolution and third party general obligation bondholders. Restricted for construction represents constraints placed on certain net position because of legally restricted monies received and unspent from developers as required by State law.

Unrestricted Net Position

As required by GASB Statement No. 34, net position has been classified according to guidelines established for restricted assets. However, the unrestricted net position, although not legally restricted, has been established pursuant to Board Resolution No. 3359 and is primarily composed of reserves for various purposes. The unrestricted net position at June 30, 2014 consists of:

| | |
|--|------------------------------|
| Replacement and system betterment reserve | \$ 108,389,061 |
| Operational debt service reserve | 19,269,663 |
| General liability and workers compensation reserve | 787,486 |
| Other reserves | <u>5,907,583</u> |
| Total unrestricted net position | <u><u>\$ 134,353,793</u></u> |

11. Commitments

Construction Contracts

The District is committed to approximately \$42,441,662 of open construction contracts as of June 30, 2014. The contracts with the largest remaining balances include:

| | Contract Amount | Balance To Complete |
|---|------------------------------|--------------------------------|
| Rebid – Wine Country PH 1 Pipelines | \$ 14,351,066 | \$ 8,567,655 |
| SJVRWRF Title 22 & Plant 2 Facilities | 116,205,729 | 6,334,948 |
| Olive Ave Sewer Improvements PH1 | 6,666,666 | 6,323,916 |
| Longview Tank | 4,243,659 | 3,762,039 |
| Lettermen Booster Pump Station | 4,852,519 | 3,385,911 |
| Watson Rd & Longview LN Pipelines | 3,861,777 | 3,117,327 |
| MVRWRF & TVRWRF Maintenance Building | 3,180,800 | 2,982,902 |
| Daily II Reservoir | 3,361,392 | 2,978,779 |
| Watson Road Booster | 3,111,000 | 2,274,021 |
| MVRWRF Dewatering Odor Control & Conveyance | 2,454,111 | 980,045 |
| Total | <u><u>\$ 162,288,719</u></u> | <u><u>\$ 40,707,543</u></u> |

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and flooding for which the District maintains various insurance programs. The District has entered into contracts to oversee and administer these programs.

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any nonincremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a structured workers compensation settlement was reached, which included a present value of \$5.3 million in future payments calculated using a discount rate of 3 percent over 30 years. Changes in claims payable for the years ended June 30 are as follows:

| | Beginning Balance June 30, 2013 | Additions | Reductions | Ending Balance June 30, 2014 | Due Within One Year |
|-----------------------------|--|---------------------|-----------------------|---|------------------------------------|
| General liability claims | \$ 405,000 | \$ 26,693 | \$ (152,144) | \$ 279,549 | \$ 279,549 |
| Workers compensation claims | 7,009,780 | 1,401,297 | (1,215,268) | 7,195,809 | 1,500,000 |
| General damage claims | - | 214,236 | (214,236) | - | - |
| Dental claims | 11,115 | 797,346 | (766,799) | 41,662 | 41,662 |
| Total unpaid claims | \$ 7,425,895 | \$ 2,439,572 | \$ (2,348,447) | \$ 7,517,020 | \$ 1,821,211 |

| | 2014 | 2013 |
|--|---------------------|--------------|
| Unpaid claims, beginning | \$ 7,425,895 | \$ 5,691,584 |
| Incurred claims and changes in estimates | 2,439,572 | 3,822,316 |
| Claim payments | (2,348,447) | (2,088,005) |
| Unpaid claims, ending | \$ 7,517,020 | \$ 7,425,895 |

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2013 to 2014. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2014 and 2013. However, the settlement discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

11. Commitments (continued)

Soboba Settlement Act

The District is a party to the Soboba Settlement Act (Act). This Act was signed into Law by the President of the United States of America on July 31, 2008 and approved the Settlement Agreement between the Soboba Band of Luiseño Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD), the Metropolitan Water District of Southern California (MWD), and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of Lake Hemet by the LHMWD. Notice regarding the statement of findings for the act was published in the Federal Register on November 28, 2011 and the Settlement Agreement became enforceable.

The Settlement Agreement provides that:

- a. The Tribe shall have a senior rights to 9,000 acre feet of water each year;
- b. The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
- c. The District shall contract with MWD for a long term water supply agreement to bring 7,500 acre feet of additional imported water into the area to meet the current and future needs;
- d. The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
- e. The groundwater management plan is to include arrangements between the municipal pumpers in the area (LHMWD, the cities of Hemet and San Jacinto, and the District) regarding limitations on pumping from the groundwater basin;
- f. The federal government shall provide some funding for compliance with the agreement; and,
- g. MWD and the District will transfer land that each agency owns to the Tribe in full satisfaction of the tribe's damages because of construction of the San Jacinto Tunnel.

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a water management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$388,326 receivable from Watermaster for outstanding billings of water purchased and delivered to other agencies at June 30, 2014.

Eastern Municipal Water District
Notes to the Basic Financial Statements

(continued)

11. Commitments (continued)

Soboba Settlement Act (continued)

In addition, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals and recorded \$2,091,314 and \$1,173,899 in water inventory for the fiscal years ended June 30, 2014 and June 30, 2013, respectively. The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported Settlement Agreement water valued at purchase cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal years ended June 30, 2014 and June 30, 2013.

| | Beginning Balance June 30, 2013 | Additions | Reductions | Ending Balance June 30, 2014 |
|--------------|---------------------------------------|------------|--------------|------------------------------------|
| Acre feet | 86,834 | 4,544 | (14,045) | 77,333 |
| Dollar value | \$ 2,279,683 | \$ 193,198 | \$ (381,567) | \$ 2,091,314 |

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bondholders. The Special Funding District Bonds outstanding at June 30, 2014 and 2013, were \$214,697,804 and \$203,520,562 respectively, and are not included in the District's financial statements.

12. Contingencies

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

13. Santa Ana Watershed Project Authority

The District became a member of the Santa Ana Watershed Project Authority (SAWPA) in September 1984. SAWPA was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies. The purpose of SAWPA is to undertake projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Commission, consisting of one member from each of the five-member agencies; an alternate from each member agency is also designated. The Commission members select a Commissioner and an alternate.

According to the latest available audited financial statements, as of June 30, 2013 SAWPA had total assets of \$185,329,072 and total net assets of \$67,377,974. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

Eastern Municipal Water District
Notes to the Basic Financial Statements
(continued)

14. Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2014 and 2013, the amount of refundable deposits were \$23,720,014 and \$20,996,140, respectively. However, when a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

15. Subsequent Event

In October 2014, the District issued \$45,175,000 Refunding Water and Wastewater Revenue Bonds, Series 2014B to prepay the outstanding 2008D Revenue Refunding Variable Rate Certificates of participation. In October 2014, the District issued \$54,765,000 Refunding Water and Wastewater Revenue Bonds, Series 2014C to prepay the outstanding 2008A Revenue Refunding Variable Rate Certificates of Participation.

Both the 2014B and 2014C Revenue Bonds were issued in the variable rate mode as a subordinate lien. The refundings permitted the release of debt service reserve funds and will improve debt service coverage ratios from 2015 through 2019.

On October 31, 2014, the District entered into a Novation Confirmation which transferred the swap from UBS to Wells Fargo Bank, N.A. This novation allowed the District to achieve a higher rated counterparty and move any swap termination payments down to a subordinate lien level.

**Eastern Municipal Water District
Required Supplementary Information
Schedule of Funding Progress**

Pension Plan

The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's agent multiple-employer public employee defined benefit pension plan. The information reflects the most recent actuarial valuation and the two preceding valuations from PERS.

| Actuarial Valuation Date | (A) Entry Age Actuarial Accrued Liability (AAL) | (B) Actuarial Value of Assets | (C) Unfunded AAL (UAAL) (A)-(B) | Actuarial Funded Ratio (B)/A | (D) Covered Payroll | UAAL as a Percentage of Covered Payroll (C)/(D) |
|--------------------------------|--|--|--|------------------------------------|---------------------------|---|
| | | | | | | |
| 06/30/10 | \$ 253.25 | \$ 207.39 | \$ 45.85 | 81.9% | \$ 46.01 | 99.7% |
| 06/30/11 | 277.96 | 222.35 | 55.61 | 80.0% | 47.59 | 116.9% |
| 06/30/12 | 294.70 | 237.98 | 56.71 | 80.8% | 47.99 | 118.2% |

Other Postemployment Benefits Plan

The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's agent multiple-employer defined benefit OPEB plan. The information reflects the most recent valuation and the previous biennial valuation

| Fiscal Year Impacted | Actuarial Valuation Date | (A) Entry Age Actuarial Accrued Liability (AAL) | (B) Actuarial Value of Assets | (C) Unfunded AAL (UAAL) (A)-(B) | Actuarial Funded Ratio (B)/A | (D) Covered Payroll | UAAL as a Percentage of Covered Payroll (C)/(D) |
|----------------------------|--------------------------------|--|--|--|------------------------------------|---------------------------|---|
| | | | | | | | |
| 06/30/12 | 06/30/11 | 120.3 | - | 120.3 | N/A | 47.6 | 252.7% |
| 06/30/13 | 06/30/11 | 130.1 | 2.7 | 127.5 | 2.0% | 49.2 | 259.3% |
| 06/30/14 | 06/30/13 | 94.7 | 6.9 | 87.8 | 7.0% | 51.5 | 170.5% |

Statistical Section

Recycled Water Service

The District's strategic objective is to develop and implement an integrated program of ongoing treatment, storage, and distribution system projects to utilize 100 percent of treated effluent for the highest beneficial and sustainable use possible.



Recycled Water System

| | |
|---|-----------------|
| Miles of pipeline | 215 |
| Number of storage tanks | 4 |
| Active pumping stations | 21 |
| Active accounts | 316 |
| Total acre feet per year produced | 37,467 |
| Maximum storage capacity | 6,184 acre feet |



Eastern Municipal Water District

Statistical Section

This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes to the basic financial statements, and required supplementary information says about the District's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. *The District implemented GASB Statement No. 34 in 2002.*

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

| <u>Fiscal Year</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net investment in capital assets | \$ 747,790,921 | \$ 864,024,679 | \$ 963,472,752 | \$ 1,097,667,937 | \$ 1,084,747,657 | \$ 1,153,155,186 | \$ 1,182,870,831 | \$ 1,231,275,509 | \$ 1,239,753,130 | \$ 1,300,393,466 |
| Restricted for debt service/covenants | 50,932,809 | 58,964,117 | 57,377,104 | 56,443,385 | 58,248,958 | 65,090,658 | 65,433,313 | 64,333,290 | 73,268,230 | 70,625,613 |
| Restricted for construction | 179,216,380 | 193,659,075 | 238,268,776 | 133,617,326 | 169,061,541 | 150,977,362 | 127,083,266 | 99,513,601 | 56,375,249 | 45,199,054 |
| Unrestricted | 96,710,649 | 86,541,422 | 62,672,401 | 101,896,457 | 120,482,286 | 129,229,640 | 136,478,455 | 126,867,540 | 148,512,588 | 134,353,793 |
| Total net position | \$ 1,074,650,759 | \$ 1,203,189,293 | \$ 1,321,791,033 | \$ 1,389,625,105 | \$ 1,432,540,442 | \$ 1,498,452,846 | \$ 1,511,865,865 | \$ 1,521,989,940 | \$ 1,517,909,197 | \$ 1,550,571,926 |
| % Increase | 8.4% | 12.0% | 9.9% | 5.1% | 3.1% | 4.6% | 0.9% | 0.7% | -0.3% | 2.2% |

Note:

1. Change from prior year includes a net prior period adjustment of (\$4,026,052). Change in net position for fiscal year 2013 is (\$54,691).

Source: Eastern Municipal Water District

**CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

| Fiscal Year | Operating Revenues | | Operating Expenses ³ | | Operating Loss | Total Nonoperating Revenues/ (Expenses) ⁴ | Income Before Capital Contributions | Capital Contributions ⁵ | Change in Net Position |
|-------------|--------------------|-------------------------|---------------------------------|-------------|----------------|--|-------------------------------------|------------------------------------|------------------------|
| | Water ¹ | Wastewater ² | Water | Wastewater | | | | | |
| 2005 | 66,258,221 | 41,238,057 | 85,135,040 | 59,332,209 | (36,970,971) | 89,195,075 | 52,224,104 | 30,613,539 | 82,837,643 |
| 2006 | 77,611,474 | 47,407,080 | 96,891,371 | 67,918,954 | (39,791,771) | 120,029,885 | 80,238,114 | 48,300,420 | 128,538,534 |
| 2007 | 92,679,789 | 53,066,742 | 113,677,146 | 77,853,830 | (45,784,445) | 106,629,828 | 60,845,383 | 57,756,357 | 118,601,740 |
| 2008 | 94,135,642 | 56,972,828 | 122,519,535 | 90,017,563 | (61,428,628) | 90,911,996 | 29,483,368 | 38,350,704 | 67,834,072 |
| 2009 | 103,013,429 | 62,611,918 | 122,515,771 | 94,629,395 | (51,519,819) | 59,613,648 | 8,093,829 | 34,821,508 | 42,915,337 |
| 2010 | 102,747,031 | 65,937,963 | 134,462,273 | 96,301,243 | (62,078,522) | 51,691,692 | (10,386,830) | 49,369,637 | 38,982,807 |
| 2011 | 102,009,545 | 67,114,654 | 137,981,887 | 98,467,509 | (67,325,197) | 41,208,043 | (26,117,154) | 39,530,173 | 13,413,019 |
| 2012 | 104,741,242 | 71,118,648 | 148,531,957 | 107,780,498 | (80,452,565) | 33,845,761 | (46,606,804) | 56,730,879 | 10,124,075 |
| 2013 | 112,456,804 | 74,633,171 | 154,950,442 | 108,169,114 | (76,029,581) | 45,528,065 | (30,501,516) | 30,446,825 | (54,691) |
| 2014 | 122,724,175 | 79,225,506 | 163,774,490 | 111,720,396 | (73,545,205) | 57,381,626 | (16,163,579) | 48,826,308 | 32,662,729 |

Notes:

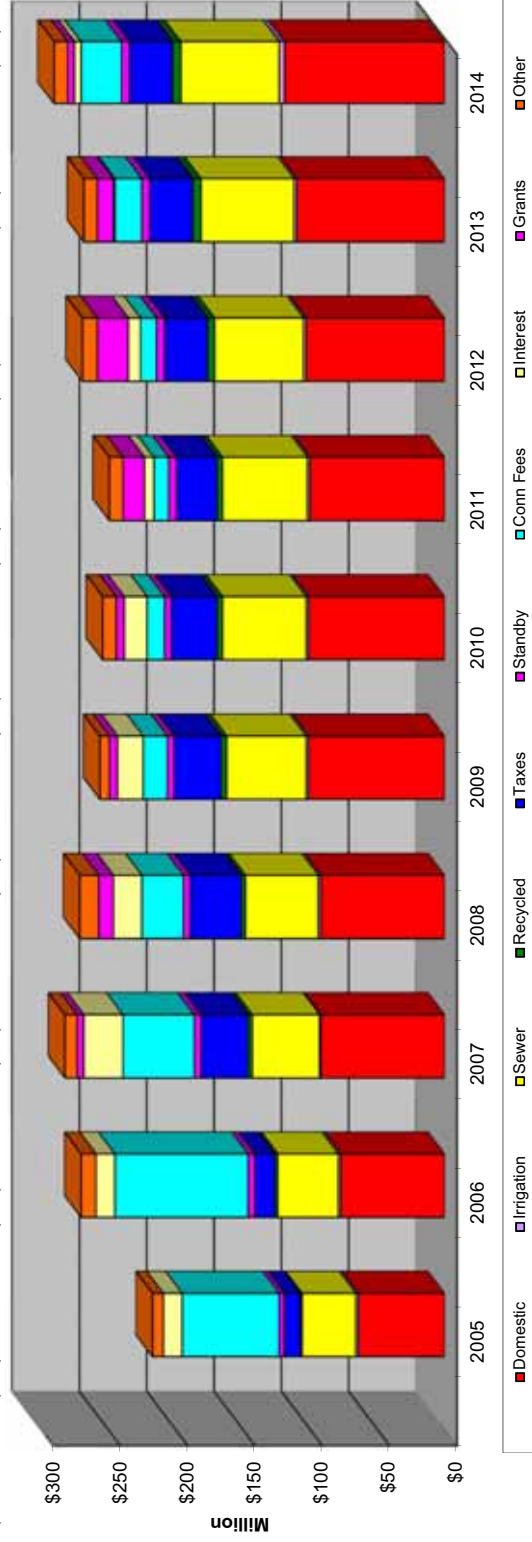
1. Increased construction activity relating to growth and market conditions accounts for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008, 2009 and 2011 due to lower construction activity, and increased in 2010 due to District-wide efforts to close out construction projects.
2. GASB Statement No. 45 was implemented in 2008; net other postemployment benefits expense of \$6.2, \$8.9, \$11.1, \$11.5, \$15.3, \$11.9 and \$8.4 million for 2008-2014, respectively, is included.

3. The District implemented a budget-based tiered water rate structure for single and multifamily residential and landscape customers beginning April 2009. This structure was designed to be revenue neutral, but significant billings were in the higher-use wasteful tiers. Billings in these tiers decreased beginning in 2010 due to conservation efforts.

Source: Eastern Municipal Water District

REVENUES BY SOURCE LAST TEN FISCAL YEARS

| Fiscal Year | Domestic Water Sales | | Ag & Irrig Water Sales | | Sewer Service Charges | | Recycled Water Sales | | Taxes & Assmnts ¹ | | Standby Total Assmnts | | Connect Fees ² | | Interest Income ³ | | Grants ⁴ | | Other | | Total Revenues |
|-------------|----------------------|------------|------------------------|------------|-----------------------|------------|----------------------|------------|------------------------------|------------|-----------------------|------------|---------------------------|------------|------------------------------|------------|---------------------|------------|------------|------------|----------------|
| | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | Total | % of Total | |
| 2005 | 64,092,906 | 29.5% | 2,165,315 | 1.0% | 39,739,370 | 18.3% | 1,498,687 | 0.7% | 11,517,848 | 5.3% | 4,354,591 | 2.0% | 72,445,434 | 33.4% | 13,576,749 | 6.3% | - | 0.0% | 7,693,026 | 3.5% | 217,083,926 |
| 2006 | 76,543,807 | 28.5% | 1,067,667 | 0.4% | 45,462,646 | 16.9% | 1,944,434 | 0.7% | 14,747,589 | 5.5% | 4,518,411 | 1.7% | 99,485,272 | 37.1% | 13,804,446 | 5.2% | - | 0.0% | 10,808,046 | 4.0% | 268,382,318 |
| 2007 | 91,596,156 | 32.5% | 1,083,633 | 0.4% | 50,318,414 | 17.9% | 2,748,328 | 1.0% | 34,849,428 | 12.4% | 4,667,297 | 1.7% | 52,894,363 | 18.8% | 29,287,538 | 10.4% | 4,598,769 | 1.6% | 9,321,989 | 3.3% | 281,365,915 |
| 2008 | 91,864,344 | 34.0% | 2,271,298 | 0.8% | 54,408,172 | 20.1% | 2,564,656 | 0.9% | 37,648,103 | 13.9% | 4,868,154 | 1.8% | 30,706,687 | 11.4% | 20,579,581 | 7.7% | 11,261,996 | 4.2% | 13,867,981 | 5.2% | 270,040,972 |
| 2009 | 100,967,796 | 38.9% | 2,045,633 | 0.8% | 58,889,788 | 22.7% | 3,722,130 | 1.4% | 35,102,975 | 13.5% | 5,015,076 | 1.9% | 17,789,045 | 6.9% | 19,093,011 | 7.4% | 6,466,818 | 2.5% | 10,224,676 | 4.0% | 259,316,948 |
| 2010 | 100,699,778 | 39.8% | 2,047,253 | 0.8% | 61,885,298 | 24.5% | 4,052,665 | 1.6% | 33,559,211 | 13.3% | 5,246,008 | 2.1% | 13,010,929 | 5.1% | 16,028,408 | 6.3% | 6,063,577 | 2.4% | 10,510,099 | 4.2% | 253,103,226 |
| 2011 | 100,198,290 | 40.1% | 1,811,255 | 0.7% | 62,609,731 | 25.1% | 4,504,923 | 1.8% | 30,354,685 | 12.2% | 5,569,818 | 2.2% | 10,815,294 | 4.3% | 7,553,352 | 3.0% | 16,137,906 | 6.5% | 10,117,631 | 4.1% | 249,672,885 |
| 2012 | 103,226,203 | 38.4% | 1,515,039 | 0.6% | 65,983,462 | 24.5% | 5,135,186 | 1.9% | 31,730,750 | 11.8% | 5,600,661 | 2.1% | 12,150,826 | 4.5% | 9,208,523 | 3.4% | 22,926,555 | 8.5% | 11,533,511 | 4.3% | 269,010,716 |
| 2013 | 110,468,194 | 41.1% | 1,988,610 | 0.7% | 68,957,128 | 25.7% | 5,676,043 | 2.1% | 32,555,228 | 12.1% | 5,635,153 | 2.1% | 20,364,185 | 7.6% | 831,935 | 0.3% | 12,503,511 | 4.7% | 9,579,321 | 3.6% | 268,559,308 |
| 2014 | 118,695,153 | 40.9% | 4,029,022 | 1.4% | 73,100,086 | 25.2% | 6,125,420 | 2.1% | 32,578,837 | 11.2% | 5,700,591 | 2.0% | 30,149,861 | 10.4% | 4,923,583 | 1.7% | 5,214,780 | 1.8% | 9,622,670 | 3.3% | 290,140,003 |



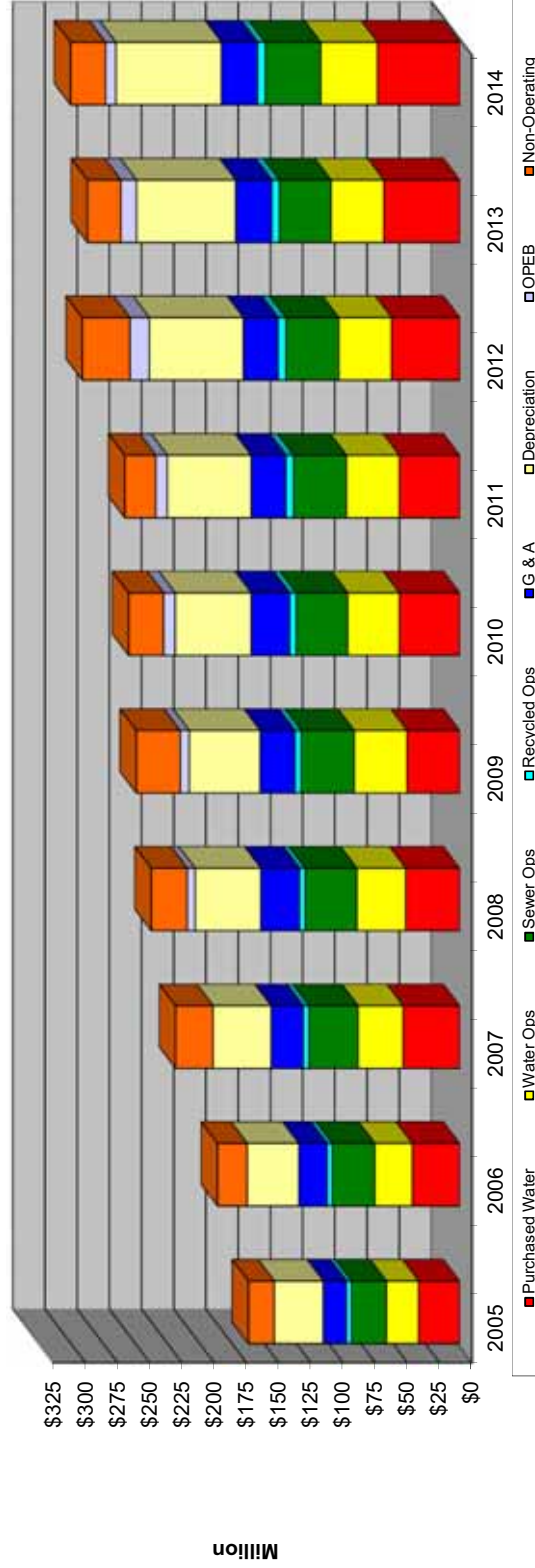
Notes:

- In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
- The decrease in connection fees is due to lower construction activity in 2007-2012 relating to the nationwide financial recession. The increased amount in 2013 relates to added connections and a rate increase in January 2013.
- Increased interest income for 2007-2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the increased amounts relate to invested COP and GO bond issuance funds. For 2011, the decrease primarily relates to a lower level of invested construction funds and recording a \$3.2 million decrease in fair value of investments. The decreased amount for 2012 relates mainly to lower average yields. The decreased amount for 2013 primarily relates to recording a \$3.7 million decrease in fair value of investments and lower average yields for the year.
- Grant revenues were separately stated beginning 2007; previously, these amounts were shown as capital contributions or other revenue. Amounts include operating and capital grant revenues.

Source: Eastern Municipal Water District

**EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

| Fiscal Year | Purchased Water | % of Total | Water Operations | % of Total | Sewer Operations | % of Total | Recycled Water | | % of Total | General & Admin ¹ | % of Total | Depr. & Amort | % of Total | Net OPEB ² | % of Total | Total Non-Operating Expenses ³ | |
|-------------|-----------------|------------|------------------|------------|------------------|------------|------------------|------------|---------------|------------------------------|---------------|---------------|------------|-----------------------|---------------|---|----------------|
| | | | | | | | Water Operations | % of Total | | | | | | | | Total Expenses ³ | % of Total |
| 2005 | \$ 32,380,524 | 19.6% | \$ 25,111,134 | 15.2% | \$ 27,194,672 | 16.5% | \$ 3,789,915 | 2.3% | \$ 18,418,043 | 11.2% | \$ 37,572,961 | 22.8% | - | 0.0% | \$ 20,392,573 | 12.4% | \$ 164,859,822 |
| 2006 | 36,817,458 | 19.6% | 29,030,238 | 15.4% | 33,061,321 | 17.6% | 4,289,919 | 2.3% | 21,520,070 | 11.4% | 40,091,319 | 21.3% | - | 0.0% | 23,333,879 | 12.4% | 188,144,204 |
| 2007 | 43,866,732 | 19.9% | 35,332,561 | 16.0% | 37,404,662 | 17.0% | 4,379,135 | 2.0% | 25,292,047 | 11.5% | 45,255,839 | 20.5% | - | 0.0% | 28,989,556 | 13.1% | 220,520,532 |
| 2008 | 41,653,430 | 17.3% | 38,447,533 | 16.0% | 39,976,740 | 16.6% | 5,071,116 | 2.1% | 30,138,792 | 12.5% | 51,030,538 | 21.3% | 6,218,949 | 2.6% | 28,020,506 | 11.6% | 240,557,604 |
| 2009 | 41,318,803 | 16.4% | 40,834,689 | 16.3% | 41,160,507 | 16.4% | 4,749,447 | 1.9% | 27,471,196 | 10.9% | 54,545,053 | 21.7% | 7,065,471 | 2.8% | 34,077,953 | 13.6% | 251,223,119 |
| 2010 | 46,936,179 | 18.2% | 39,967,447 | 15.5% | 39,657,747 | 15.4% | 5,466,039 | 2.1% | 30,256,670 | 11.7% | 59,347,777 | 23.0% | 9,131,657 | 3.5% | 27,061,214 | 10.5% | 257,824,730 |
| 2011 | 46,489,850 | 17.9% | 41,364,910 | 15.9% | 41,247,883 | 15.9% | 6,103,502 | 2.3% | 26,707,578 | 10.3% | 65,354,991 | 25.1% | 9,180,682 | 3.5% | 23,720,625 | 9.1% | 260,170,021 |
| 2012 | 52,697,993 | 18.0% | 40,789,231 | 13.9% | 41,308,806 | 14.1% | 5,748,205 | 2.0% | 27,112,598 | 9.3% | 73,369,622 | 25.0% | 15,286,000 | 5.2% | 36,751,795 | 12.5% | 293,064,250 |
| 2013 | 58,445,847 | 20.3% | 40,994,915 | 14.2% | 40,279,734 | 14.0% | 5,992,260 | 2.1% | 28,392,519 | 9.8% | 77,162,281 | 26.7% | 11,852,000 | 4.1% | 25,490,370 | 8.8% | 288,609,926 |
| 2014 | 63,850,688 | 21.1% | 44,193,507 | 14.6% | 42,710,741 | 14.1% | 5,992,372 | 2.0% | 28,352,049 | 9.4% | 82,037,529 | 27.2% | 8,358,000 | 2.8% | 26,563,390 | 8.8% | 302,058,276 |



Notes:

- The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District was involved in. The decrease in 2009 primarily relates to settlement of the lawsuit and department-wide cost-containment efforts. This amount was offset by a reclassification of net internal service funds which were reclassified to other nonoperating revenues beginning in 2009. The increase in 2010 primarily relates to recording a \$3.0 million increase in worker's compensation liability reserve.
- The District implemented GASB Statement No. 45 in 2008. Beginning in 2012, OPEB pay-as-you-go costs were removed from other operating expense categories and shown as total OPEB cost.
- The decrease in 2010 and 2011 primarily relates to recording \$6.7 and \$8.6 million, respectively, of capitalized construction period interest. The increase in 2012 relates mainly to added one-time costs of \$4.3 million for voluntary termination benefits and \$5.3 million in settlement payments for a lawsuit with San Jacinto Z LLC.

Source: Eastern Municipal Water District

**WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS**

| Fiscal Year | Gallons Produced ¹ | | | Water | | | Gallons Consumed | | | Unbilled | | Gallons of Wastewater Treated | Total Direct Rate | |
|-------------|-------------------------------|-------|-----------|--------|----------|------------|------------------|-------|-------|--------------------------|---------------------------|-------------------------------|--------------------|--|
| | Purchased | Wells | Desalters | Total | Domestic | Ag & Irrig | Total | Total | Avg % | Base Rate ^{2,5} | Usage Rate ^{3,5} | | Sewer ⁴ | |
| 2005 | 24,532 | 5,352 | 217 | 30,101 | 26,247 | 1,698 | 27,945 | 2,156 | 7.2% | 15,805 | 7.70 | 31.04 | 17.40 | |
| 2006 | 25,818 | 6,353 | 944 | 33,115 | 29,688 | 771 | 30,459 | 2,656 | 8.0% | 16,352 | 8.15 | 32.36 | 18.86 | |
| 2007 | 29,866 | 6,071 | 1,613 | 37,550 | 33,883 | 1,263 | 35,146 | 2,404 | 6.4% | 16,786 | 8.43 | 34.40 | 19.64 | |
| 2008 | 28,254 | 6,591 | 982 | 35,827 | 32,284 | 1,537 | 33,821 | 2,006 | 5.6% | 16,906 | 10.04 | 36.38 | 20.58 | |
| 2009 | 25,390 | 6,332 | 1,455 | 33,177 | 30,721 | 1,225 | 31,946 | 1,231 | 3.7% | 16,482 | 10.52 | 41.52 | 21.88 | |
| 2010 | 23,042 | 5,555 | 1,816 | 30,413 | 27,001 | 1,116 | 28,117 | 2,296 | 7.5% | 16,436 | 10.52 | 46.32 | 22.73 | |
| 2011 | 21,611 | 5,220 | 1,943 | 28,774 | 25,958 | 857 | 26,815 | 1,959 | 6.8% | 16,805 | 10.52 | 48.26 | 22.90 | |
| 2012 | 22,365 | 5,244 | 1,783 | 29,392 | 27,154 | 690 | 27,844 | 1,548 | 5.3% | 16,425 | 10.52 | 47.50 | 23.96 | |
| 2013 | 23,709 | 5,683 | 1,909 | 31,301 | 28,078 | 860 | 28,938 | 2,363 | 7.6% | 16,363 | 10.52 | 49.92 | 24.72 | |
| 2014 | 25,057 | 6,192 | 1,820 | 33,069 | 28,982 | 1,820 | 30,802 | 2,267 | 6.9% | 16,389 | 10.77 | 52.50 | 25.90 | |

Notes:

The information shown does not include recycled water.

1. Gallons are presented in millions.
2. Rate shown is based on the daily fixed charge for meters up to and including 1".
3. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
4. Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.
5. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

**WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

| Fiscal Year Water Rates | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009³</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Monthly base rate (meter size) | | | | | | | | | | |
| <=1" | \$ 7.70 | \$ 8.15 | \$ 8.43 | \$ 10.04 | \$ 10.52 | \$ 10.52 | \$ 10.52 | \$ 10.55 | \$ 10.52 | \$ 10.77 |
| 1 1/2" | 11.56 | 12.23 | 12.65 | 15.06 | 27.68 | 27.68 | 27.68 | 27.76 | 27.68 | 28.29 |
| 2" | 15.39 | 16.30 | 16.85 | 20.08 | 51.40 | 51.40 | 51.40 | 51.55 | 51.40 | 52.62 |
| 3" | 30.78 | 32.61 | 33.70 | 40.15 | 171.25 | 171.25 | 171.25 | 171.72 | 171.25 | 175.20 |
| 4" | 38.48 | 40.76 | 42.16 | 50.19 | 270.40 | 270.40 | 270.40 | 271.15 | 270.40 | 276.49 |
| 6" | 53.87 | 57.06 | 59.01 | 70.26 | 505.53 | 505.53 | 505.53 | 506.91 | 505.53 | 517.08 |
| 8" | 61.56 | 65.21 | 67.40 | 80.30 | 633.28 | 633.28 | 633.28 | 635.01 | 633.28 | 647.88 |
| Usage rate (per billing unit)¹ | \$ 31.04 | \$ 32.36 | \$ 34.40 | \$ 36.38 | \$ 41.52 | \$ 46.32 | \$ 48.26 | \$ 47.50 | \$ 49.92 | \$ 52.50 |
| Sewer Rates (avg per month)² | \$ 17.40 | \$ 18.86 | \$ 19.64 | \$ 20.58 | \$ 21.88 | \$ 22.73 | \$ 22.90 | \$ 23.96 | \$ 24.72 | \$ 25.90 |

Notes:

The information shown does not include recycled water.

Rates are adopted by the Board of Directors annually and become effective on the date of adoption or per Board direction.

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
2. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as the weighted average daily rate, times 365 days per year, divided by 12 months per year.
3. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

**CUSTOMERS BY WATER SERVICE TYPE
LAST TEN FISCAL YEARS**

| Fiscal Year | Treated and Untreated Water | | | | | | | Total | Recycled | Total |
|-------------------|-----------------------------|------------|------------|---------------------|-------------|------------|--------------|---------|----------|---------|
| | Residential | Commercial | Industrial | Public Construction | | | Agricultural | | | |
| | | | | Agency | & Temporary | Irrigation | | | | |
| 2005 | 108,865 | 2,427 | 131 | 545 | 852 | 1,518 | 544 | 114,882 | 122 | 115,004 |
| 2006 | 119,340 | 2,677 | 132 | 582 | 910 | 1,793 | 554 | 125,988 | 164 | 126,152 |
| 2007 | 125,433 | 2,827 | 134 | 607 | 849 | 1,972 | 574 | 132,396 | 204 | 132,600 |
| 2008 | 128,184 | 3,103 | 135 | 614 | 737 | 2,146 | 603 | 135,522 | 230 | 135,752 |
| 2009 | 129,242 | 3,282 | 137 | 608 | 557 | 2,236 | 627 | 136,689 | 260 | 136,949 |
| 2010 | 133,320 | 3,276 | 140 | 597 | 373 | 2,260 | 649 | 140,615 | 266 | 140,881 |
| 2011 ¹ | 131,308 | 3,240 | 142 | 596 | 327 | 2,285 | 670 | 138,568 | 265 | 138,833 |
| 2012 | 132,080 | 3,272 | 144 | 625 | 353 | 2,310 | 694 | 139,478 | 283 | 139,761 |
| 2013 | 133,279 | 3,308 | 142 | 646 | 373 | 2,344 | 692 | 140,784 | 297 | 141,081 |
| 2014 | 134,656 | 3,347 | 136 | 679 | 426 | 2,412 | 721 | 142,377 | 316 | 142,693 |

**WATER SERVICE TYPE BY CUSTOMER CATEGORY
FISCAL YEAR 2014**

| | Public Construction | | | | | | | Total |
|--------------|---------------------|--------------|------------|------------|-------------|--------------|--------------|----------------|
| | Residential | Commercial | Industrial | Agency | & Temporary | Irrigation | Agricultural | |
| Domestic | 134,656 | 3,346 | 136 | 647 | 426 | 2,406 | 597 | 142,214 |
| Agricultural | - | 1 | - | 4 | - | 4 | 124 | 133 |
| Wholesale | - | - | - | 28 | - | 2 | - | 30 |
| Total | 134,656 | 3,347 | 136 | 679 | 426 | 2,412 | 721 | 142,377 |

Note:

1. Decreased amounts are due to level of bank-owned homes relating to the economic downturn and less construction.

Source: Eastern Municipal Water District

**LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2014**

| <u>Customer Name</u> | <u>Annual Water Sales in Acre Feet</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|---|--|-----------------------------|-------------------|
| 1 City of Perris ¹ | 2,166 | \$ 2,443,803 | 20.6% |
| 2 Western Municipal Water District ^{1,2} | 1,678 | 1,833,521 | 15.4% |
| 3 City of Moreno Valley | 969 | 1,355,933 | 11.4% |
| 4 Moreno Valley School District | 1,138 | 1,327,397 | 11.2% |
| 5 Valley-Wide Recreation Park | 956 | 1,280,660 | 10.8% |
| 6 Val Verde Unified School District | 714 | 914,135 | 7.7% |
| 7 City of Murrieta | 608 | 863,558 | 7.3% |
| 8 Riverside County EDA | 626 | 788,372 | 6.6% |
| 9 Country Meadows II Assoc. | 495 | 683,796 | 5.8% |
| 10 City of San Jacinto | 357 | 392,724 | 3.3% |
| Total | <u>9,707</u> | <u>\$ 11,883,899</u> | |
| Total domestic water sales | 88,944 | \$ 118,695,153 | |
| Percentage of total | 10.9% | 10.0% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.
Data includes potable water sales to all non-agricultural customers.

1. Wholesale customer.

2. Sales relate to Murrieta County Water District customers. This water district was purchased by the Western Municipal Water District.

Source: Eastern Municipal Water District

**LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2014**

| <u>Customer Name</u> | <u>Annual Water Sales in Acre Feet</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|------------------------------------|--|----------------------------|-------------------|
| 1 Kevin and Pauline Doan | 176 | \$ 199,451 | 19.0% |
| 2 Norco Ranch Romoland | 120 | 135,813 | 12.9% |
| 3 C & R Farms | 296 | 114,886 | 10.9% |
| 4 Abacherli Dairy | 94 | 106,825 | 10.2% |
| 5 AGRI Empire | 202 | 104,713 | 10.0% |
| 6 Metropolitan Water District | 85 | 96,610 | 9.2% |
| 7 HP Mobile Estates | 79 | 89,196 | 8.5% |
| 8 Valley Wide Recreation & Park | 82 | 79,779 | 7.6% |
| 9 Mt San Jacinto College | 53 | 62,686 | 6.0% |
| 10 Demler Egg Ranch | 109 | 62,372 | 5.9% |
| Total | <u>1,296</u> | <u>\$ 1,052,331</u> | |
| Total ag. & irrigation water sales | 5,584 | \$ 4,029,022 | |
| Percentage of total | 23.2% | 26.1% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.

The District has a number of irrigation water rates depending upon service area and whether deliveries are scheduled or unscheduled.

Source: Eastern Municipal Water District

**LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2014**

| <u>Customer Name</u> | <u>Annual Water Sales in Acre Feet</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|--------------------------------------|--|----------------------------|-------------------|
| 1 Inland Empire Energy Center LLC | 1,726 | \$ 581,687 | 25.4% |
| 2 Rancho Casa Loma | 4,698 | 277,930 | 12.1% |
| 3 Agri Empire | 3,009 | 233,659 | 10.2% |
| 4 A G Sod Farms | 2,629 | 229,636 | 10.0% |
| 5 Valley Wide Recreation | 517 | 174,283 | 7.6% |
| 6 Don Bean Farms | 1,947 | 169,690 | 7.4% |
| 7 Hemet Golf Club Landmark | 401 | 162,138 | 7.1% |
| 8 The Golf Club at Rancho California | 477 | 160,593 | 7.0% |
| 9 Scott Bros Dairy | 2,636 | 150,248 | 6.6% |
| 10 Pechanga Water Systems | 446 | 150,174 | 6.6% |
| Total | 18,486 | \$ 2,290,038 | |
| Total recycled water sales | 37,467 | \$ 6,125,420 | |
| Percentage of total | 49.3% | 37.4% | |

Notes:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available. The District has a number of recycled water rates depending upon size of pipe, agricultural or non-agricultural usage and level of treatment.

Source: Eastern Municipal Water District

**LARGEST SEWER CUSTOMERS
AS OF JUNE 30, 2014**

| <u>Customer Name</u> | <u>Annual Revenues</u> | <u>Percentage</u> |
|---|----------------------------|-------------------|
| 1 Pechanga Resort and Casino | \$ 496,291 | 25.5% |
| 2 Stonegate at Towngate | 287,519 | 14.8% |
| 3 Murrieta Valley Unified School District | 214,496 | 11.0% |
| 4 Val Verde School District | 175,560 | 9.0% |
| 5 Hemet Unified School District | 135,151 | 6.9% |
| 6 Rancho Bella Vista HOA | 134,560 | 6.9% |
| 7 Waterstone at Murrieta Apartments | 131,935 | 6.8% |
| 8 Palm Court Apartments | 130,197 | 6.7% |
| 9 Westwind Enterprises | 128,736 | 6.6% |
| 10 Sienna Pointe Apartments | 112,410 | 5.8% |
| Total | \$ 1,946,855 | |
| Total sewer revenue | \$ 73,100,086 | |
| Percentage of total revenue | 2.7% | |

Note:

For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2005 is not available.

Source: Eastern Municipal Water District

**SUMMARY OF IMPORTED WATER RATES
LAST TEN FISCAL YEARS
(dollars per acre-foot)**

| Rates Effective Beginning January | Full Service Domestic | | Interim Agricultural Program ¹ | | Long Term Seasonal Storage | | |
|---|--------------------------|-----------|---|-----------|----------------------------------|-----------|------|
| | Treated | Untreated | Treated | Untreated | Treated | Untreated | |
| | | | | | | | |
| 2005 | Tier 1 | 443 | 331 | 329 | 241 | 325 | 238 |
| | Tier 2 | 524 | 412 | n/a | n/a | n/a | n/a |
| 2006 | Tier 1 | 453 | 331 | 339 | 241 | 335 | 238 |
| | Tier 2 | 549 | 427 | n/a | n/a | n/a | n/a |
| 2007 | Tier 1 | 478 | 331 | 364 | 241 | 360 | 238 |
| | Tier 2 | 574 | 427 | n/a | n/a | n/a | n/a |
| 2008 | Tier 1 | 508 | 351 | 394 | 261 | 390 | 258 |
| | Tier 2 | 606 | 449 | n/a | n/a | n/a | n/a |
| 2009 | Tier 1 | 579 | 412 | 465 | 322 | 436 | 294 |
| | Tier 2 | 695 | 528 | n/a | n/a | n/a | n/a |
| 2010 | Tier 1 | 701 | 484 | 615 | 416 | 558 | 366 |
| | Tier 2 | 811 | 594 | n/a | n/a | n/a | n/a |
| 2011 | Tier 1 | 744 | 527 | 687 | 482 | 601 | 409 |
| | Tier 2 | 869 | 652 | n/a | n/a | n/a | n/a |
| 2012 | Tier 1 | 794 | 560 | 765 | 537 | 651 | 442 |
| | Tier 2 | 920 | 686 | n/a | n/a | n/a | n/a |
| 2013 | Tier 1 | 847 | 593 | n/a | n/a | n/a* | n/a* |
| | Tier 2 | 997 | 743 | n/a | n/a | n/a | n/a |
| 2014 | Tier 1 | 890 | 593 | n/a | n/a | n/a* | n/a* |
| | Tier 2 | 1,032 | 735 | n/a | n/a | n/a | n/a |

Notes:

1. The Interim Agricultural Water program was discontinued after 2012.

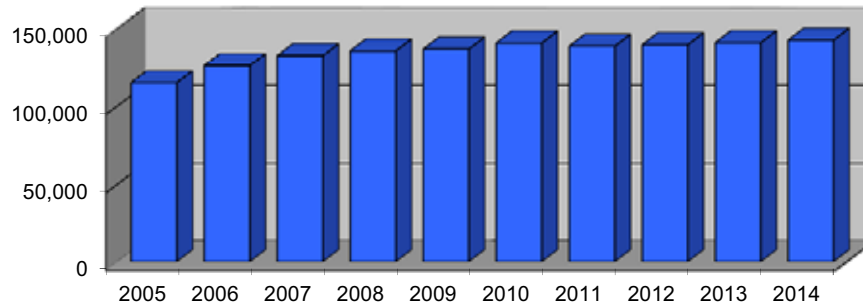
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

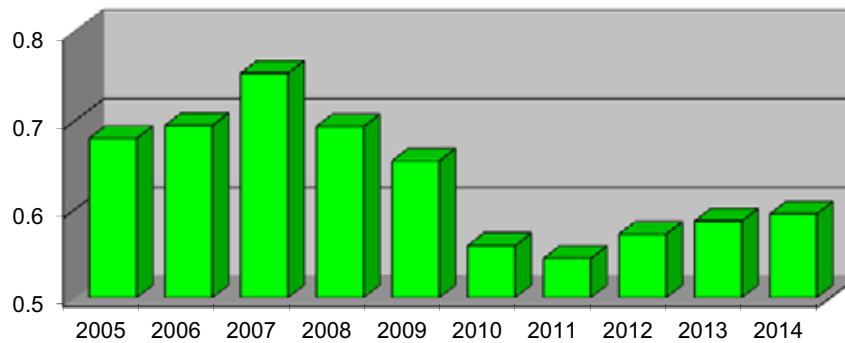
**ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS**

| Fiscal Year | Usage (AF) | Active Accounts¹ | Average AF per Account |
|--------------------|-------------------|------------------------------------|-------------------------------|
| 2005 | 77,066 | 114,882 | 0.68 |
| 2006 | 87,488 | 125,988 | 0.69 |
| 2007 | 99,658 | 132,396 | 0.75 |
| 2008 | 93,956 | 135,522 | 0.69 |
| 2009 | 89,448 | 136,689 | 0.65 |
| 2010 | 78,621 | 140,615 | 0.56 |
| 2011 | 75,461 | 138,568 | 0.54 |
| 2012 | 79,752 | 139,478 | 0.57 |
| 2013 | 82,591 | 140,784 | 0.59 |
| 2014 | 84,650 | 142,377 | 0.59 |

Number of Active Accounts



Average AF/Account



Notes:

Amounts exclude wholesale accounts.

Several factors may impact fluctuations in the average AF per account each year including conservation efforts, the level of bank-owned homes relating to the economic downturn, and changes in weather patterns.

The decrease in average AF per account for beginning 2008 is mainly due to lower usage relating to conservation efforts and cooler weather patterns..

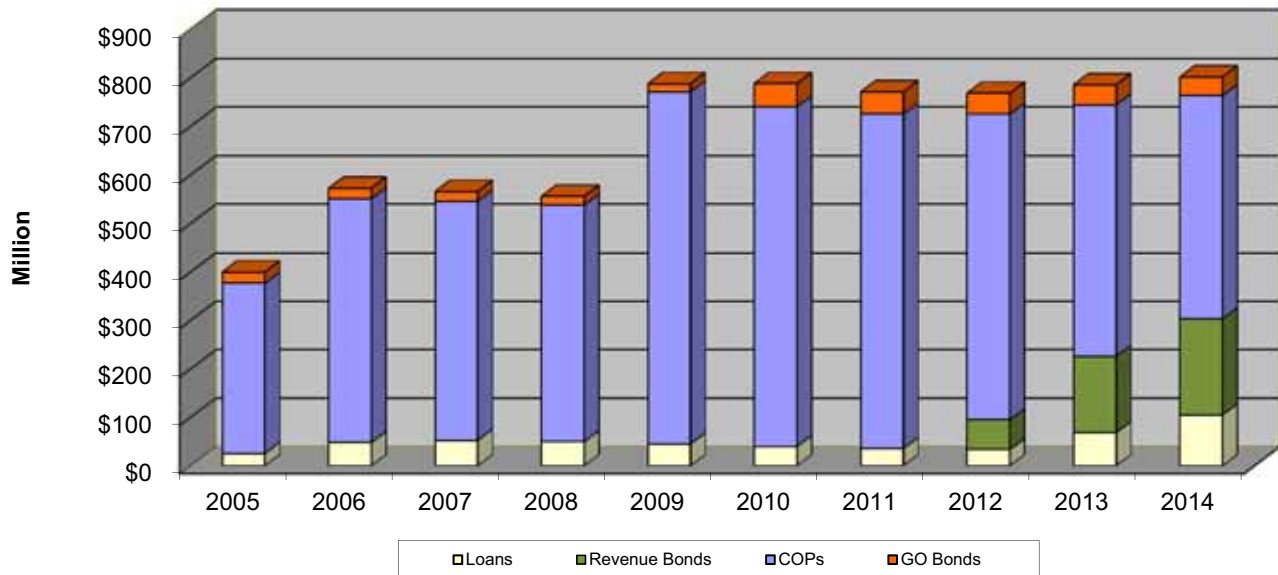
The increase for 2013 and 2014 is mainly due to increased usage relating to warmer weather patterns.

1. Amounts for all years have been updated due to availability of more precise data.

Source: Eastern Municipal Water District

**RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

| Fiscal Year | Loans ¹ | Revenue Bonds ² | Certificates of Participation ^{3,4} | General Obligation Bonds ^{4,5} | Total | Percentage of Personal Income ⁶ | Debt per Capita ⁷ |
|-------------|--------------------|----------------------------|--|---|-------------|--|------------------------------|
| 2005 | 25,705,169 | - | 351,615,000 | 22,695,000 | 400,015,169 | 0.84% | 638 |
| 2006 | 48,103,473 | - | 502,990,000 | 21,675,000 | 572,768,473 | 1.11% | 862 |
| 2007 | 52,874,716 | - | 493,190,000 | 19,945,000 | 566,009,716 | 1.01% | 814 |
| 2008 | 49,630,496 | - | 488,460,000 | 18,140,000 | 556,230,496 | 0.91% | 777 |
| 2009 | 45,407,198 | - | 726,270,000 | 16,260,000 | 787,937,198 | 1.23% | 1,086 |
| 2010 | 40,279,228 | - | 700,311,094 | 47,672,284 | 788,262,606 | 1.21% | 1,068 |
| 2011 | 35,818,082 | - | 689,723,765 | 45,481,394 | 771,023,241 | 1.22% | 1,014 |
| 2012 | 33,651,101 | 61,452,320 | 630,227,034 | 43,145,504 | 768,475,959 | 1.18% | 1,000 |
| 2013 | 68,749,388 | 157,648,717 | 518,338,874 | 40,949,446 | 785,686,425 | 1.13% | 1,011 |
| 2014 | 105,195,668 | 198,525,127 | 459,710,090 | 38,446,800 | 801,877,685 | 1.11% | 1,022 |



Notes:

Details regarding the District's outstanding debt can be found in the Note 5 to the basic financial statements.

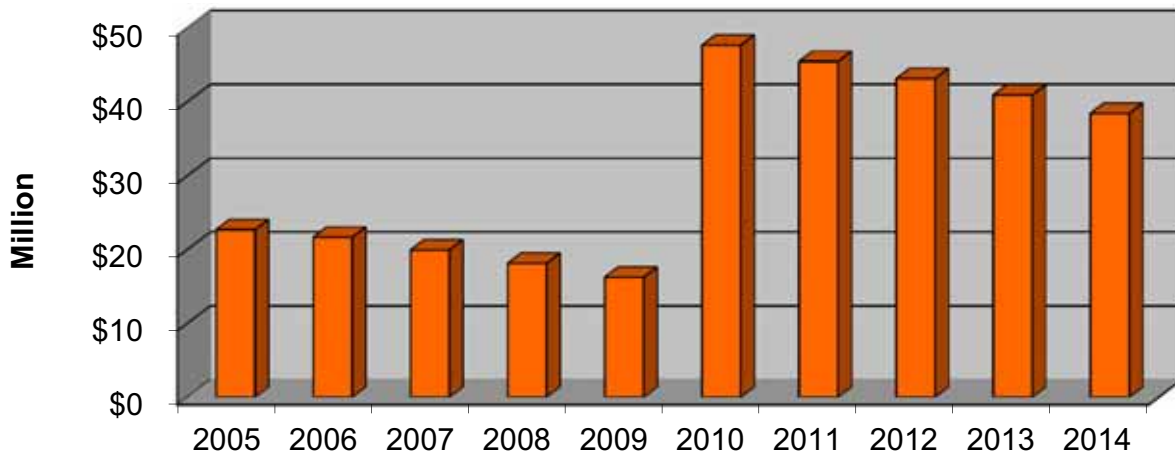
See the schedule of Demographic and Economic Statistics for personal income and population data.

1. The \$38 million construction advance for the SCATT project converted to a loan in 2013. In 2014, the \$44 million construction advance for the APAD project converted to a loan.
2. The District issued \$56 million of Refunding Revenue Bonds in 2012. With the added premium and reserve funds, the issuance of these bonds refunded \$62 million of COPs. In 2013, the District issued \$104.6 million of Refunding Revenue Bonds which refunded \$104.6 million of COPs. The District issued \$49 million of Refunding Revenue Bonds in 2014.
3. The District issued over \$160 million of new COPs in 2006 and another \$240 million in 2010.
4. Beginning 2010, amounts shown include net debt premium/discount and deferred refunding charges, if applicable. Beginning 2012, deferred charges on debt refundings are excluded and shown as a separate line item in the financial statements.
5. The District issued \$32 million of new GO Bonds in 2009.
6. Based upon Riverside County personal income amounts. The District is located in the County of Riverside. See the personal income amounts on the Demographic and Economic Statistics schedule.
7. Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

**RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

| Fiscal Year | General Obligation Bonds^{1,2} | Assessed Value³ | Percentage of Assessed Value | Debt per Capita⁴ |
|--------------------|---|-----------------------------------|-------------------------------------|------------------------------------|
| 2005 | \$ 22,695,000 | \$ 36,317,993,384 | 0.06% | 36 |
| 2006 | 21,675,000 | 45,799,534,361 | 0.05% | 33 |
| 2007 | 19,945,000 | 57,857,155,353 | 0.03% | 29 |
| 2008 | 18,140,000 | 68,127,605,656 | 0.03% | 25 |
| 2009 | 16,260,000 | 67,617,348,347 | 0.02% | 22 |
| 2010 | 47,672,284 | 56,743,387,948 | 0.08% | 65 |
| 2011 | 45,481,394 | 54,294,174,863 | 0.08% | 60 |
| 2012 | 43,145,504 | 53,890,135,705 | 0.08% | 56 |
| 2013 | 40,949,446 | 53,506,155,585 | 0.08% | 53 |
| 2014 | 38,446,800 | 55,926,804,094 | 0.07% | 49 |

Total Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 5 to the basic financial statements.

See the schedule of Demographic and Economic Statistics for population data.

1. The District issued \$32 million of new GO bonds in 2010.

2. Beginning 2010, amounts shown include net bond premium/discount.

3. Bonds are issued by improvement district, but the amounts shown are for the District's entire service area.

4. Based upon approximate population of the District's entire service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

**PARITY DEBT SERVICE COVERAGE
FISCAL YEARS 2005 - 2014**

| | 2005 | 2006 | 2007 | 2008 | 2009 ¹ | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|---------------|---------------|---------------|---------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| OPERATING REVENUES: | | | | | | | | | | |
| Water sales | \$ 66,258,221 | \$ 77,611,474 | \$ 92,679,789 | \$ 94,135,642 | \$ 103,013,429 | \$ 102,747,031 | \$ 102,479,984 | \$ 104,741,242 | \$ 110,468,195 | \$ 122,724,175 |
| Sewer service sales | 39,739,370 | 45,462,646 | 50,318,414 | 54,408,172 | 58,889,788 | 61,885,298 | 62,840,013 | 65,983,462 | 70,945,738 | 73,100,086 |
| Recycled water | 1,498,687 | 1,944,434 | 2,748,328 | 2,564,656 | 3,722,130 | 4,052,665 | 4,504,923 | 5,135,186 | 5,676,043 | 6,125,420 |
| Total operating revenues | 107,496,278 | 125,018,554 | 145,746,531 | 151,108,470 | 165,625,347 | 168,684,994 | 169,824,920 | 175,859,890 | 187,089,976 | 201,949,681 |
| OPERATING EXPENSES: | | | | | | | | | | |
| Water purchases | 32,380,524 | 36,817,458 | 43,866,732 | 41,653,430 | 41,318,803 | 46,936,179 | 46,489,850 | 52,697,993 | 58,445,847 | 63,850,688 |
| Water operations | 25,111,134 | 29,030,238 | 35,332,561 | 38,447,533 | 40,834,689 | 39,967,447 | 41,364,910 | 40,789,231 | 40,994,915 | 44,193,507 |
| Sewer operations | 30,984,587 | 37,351,240 | 41,783,797 | 45,047,856 | 45,909,954 | 45,123,786 | 47,351,385 | 47,057,011 | 46,271,994 | 48,703,113 |
| Other Post Employment Benefits (OPEB) Contribution ² | - | - | - | - | - | - | - | 2,620,589 | 5,740,000 | 6,123,000 |
| General & administrative | 18,418,043 | 21,520,070 | 25,292,047 | 30,138,792 | 27,471,196 | 30,256,670 | 27,408,299 | 27,112,598 | 28,392,519 | 28,352,049 |
| Total operating expenses | 106,894,288 | 124,719,006 | 146,275,137 | 155,287,611 | 155,534,642 | 162,284,082 | 162,614,444 | 170,277,422 | 179,845,275 | 191,222,357 |
| OPERATING INCOME (LOSS) | 601,990 | 299,548 | (528,606) | (4,179,141) | 10,090,705 | 6,400,912 | 7,210,476 | 5,582,468 | 7,244,701 | 10,727,324 |
| NON-OPERATING REVENUES: | | | | | | | | | | |
| Property taxes - general purpose | 8,707,881 | 11,213,568 | 31,293,863 | 34,528,767 | 33,149,232 | 29,474,227 | 25,884,964 | 26,574,300 | 27,243,491 | 28,061,489 |
| Standby charges | 4,354,591 | 4,518,411 | 4,667,297 | 4,868,154 | 5,015,076 | 5,246,008 | 5,589,818 | 5,600,661 | 5,635,153 | 5,700,591 |
| Water and sewer connection fees | 72,445,434 | 99,485,272 | 52,894,363 | 30,706,687 | 17,789,045 | 13,010,929 | 10,815,294 | 12,150,826 | 20,364,185 | 30,149,861 |
| Interest income ³ | 13,354,263 | 13,545,983 | 28,899,522 | 20,128,848 | 18,706,820 | 16,681,744 | 7,684,191 | 7,431,966 | 4,485,217 | 3,133,313 |
| Grant revenues | - | - | - | 11,261,996 | 6,466,818 | 6,063,577 | 16,137,906 | 22,926,555 | 12,503,511 | 5,214,780 |
| Other income/(expense) | 3,077,188 | 7,088,624 | 4,093,851 | 8,812,367 | 1,767,759 | 487,672 | 1,727,067 | (4,563,952) | 2,967,319 | 947,126 |
| Total non-operating revenues | 101,939,357 | 135,851,858 | 121,848,896 | 110,306,819 | 82,894,750 | 70,964,157 | 67,799,240 | 70,120,356 | 73,198,876 | 73,207,160 |
| NON-OPERATING EXPENSES: | | | | | | | | | | |
| Parity debt service interest payments (DWR/BOR) | - | - | - | - | 1,163,677 | 1,003,731 | 881,803 | 777,734 | 1,154,948 | 1,215,506 |
| Debt service interest payments (COP/Bonds) ⁴ | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 23,564,234 | 21,413,765 | 20,981,966 | 19,124,680 | 18,531,971 | 14,783,498 |
| Total non-operating expenses | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 24,727,911 | 22,417,496 | 21,863,769 | 19,902,414 | 19,686,919 | 15,999,004 |
| EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEM | 87,182,390 | 117,746,589 | 98,649,890 | 84,173,716 | 68,257,544 | 54,947,573 | 53,145,947 | 55,800,410 | 60,756,658 | 67,935,480 |
| Add back for parity debt | 15,358,957 | 18,404,817 | 22,670,400 | 21,953,962 | 24,727,911 | 22,417,496 | 21,863,769 | 19,902,414 | 19,686,919 | 15,999,004 |
| Net revenues for debt coverage | 102,541,347 | 136,151,406 | 121,320,290 | 106,127,678 | 92,985,455 | 77,365,069 | 75,009,716 | 75,702,824 | 80,443,577 | 83,934,484 |
| Parity debt: COP & Loan principal and interest | 24,113,957 | 27,374,817 | 32,005,400 | 28,708,962 | 39,853,513 | 38,759,515 | 38,435,569 | 41,159,796 | 39,384,199 | 39,534,461 |
| PARITY DEBT SERVICE COVERAGE RATIO | 4.3 | 5.0 | 3.8 | 3.7 | 2.3 | 2.0 | 2.0 | 1.8 | 2.0 | 2.1 |

Source: Eastern Municipal Water District

Notes:

- 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
- Beginning FY 2012, OPEB contribution expense is separated from Water and Sewer operating expense. Total Annual OPEB Cost was \$11,505,000 and \$15,286,000 in FY 2012 and FY 2013 respectively. See Note 9.
- Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.
- 2011, 2012, and 2013 COP/Bond interest expense amounts include \$8,713,038, \$1,323,083, and \$2,781,718 of capitalized construction period interest, respectively. See Note 15 to the basic financial statements.

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

| Calendar Year | Population¹ | Personal Income² (thousands of \$) | Per Capita Personal Income² | Unemployment Rate² |
|--------------------------|-------------------------------|--|---|--|
| 2004 | 627,386 | \$ 47,545,905 | \$ 26,837 | 6.0% |
| 2005 | 664,807 | 51,506,970 | 27,743 | 5.4% |
| 2006 | 695,209 | 55,776,492 | 28,873 | 5.0% |
| 2007 | 715,664 | 60,993,887 | 30,309 | 6.0% |
| 2008 | 725,610 | 64,062,308 | 30,871 | 8.5% |
| 2009 | 737,868 | 64,995,060 | 30,808 | 13.4% |
| 2010 | 760,128 | 63,184,275 | 29,433 | 14.7% |
| 2011 | 768,264 | 65,107,626 | 29,563 | 13.6% |
| 2012 | 776,986 | 69,522,078 | 31,074 | 12.2% |
| 2013 | 784,834 | 72,015,057 | 31,742 | 10.3% |

- Notes: 1. Data is for the District's service area. Amounts for prior years are restated with the most recent available information.
2. Data is for the County of Riverside. The District is located within the County. Amounts for prior years are restated for most recent available information.

Sources: State of California Employment Development Department
State of California Department of Finance
U.S. Department of Commerce, Bureau of Economic Analysis

**PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2014**

| Employer | No. of Employees | Percentage of Total Employment |
|---|-----------------------------|---|
| County of Riverside | 20,808 | 2.4% |
| March Air Reserve Base | 8,500 | 1.0% |
| Stater Brothers Markets | 6,900 | 0.8% |
| University of California, Riverside | 5,514 | 0.6% |
| Kaiser Permanente Riverside Medical Ctr | 5,270 | 0.6% |
| Pechanga Resort & Casino | 4,500 | 0.5% |
| Corona-Norco Unified School District | 4,300 | 0.5% |
| Wal-Mart | 4,068 | 0.5% |
| Riverside Unified School District | 4,000 | 0.5% |
| Hemet Unified School District | 3,572 | 0.4% |
| Total | <u>67,432</u> | 7.9% |
| Total Employment | <u>855,300</u> | |

- Notes: For compliance with GASB Statement No. 34, data for fiscal year ended June 30, 2004 is not available.
Data is for the County of Riverside. The District is located within the County.

Sources: Riverside County Economic Development Agency
State of California Employment Development Department

**EMPLOYEES BY FUNCTION
LAST NINE FISCAL YEARS**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 ⁵ | 2014 |
|--|---------------|---------------|---------------|------------|------------|------------|------------|-------------------|------------|
| <u>Operations and Maintenance Division</u> | | | | | | | | | |
| Water Operations and Distribution | 60 | 57 | 66 | 63 | 63 | 64 | 64 | 65 | 66 |
| Water Reclamation | 75 | 76 | 82 | 82 | 87 | 90 | 90 | 86 | 87 |
| Maintenance Services | 19 | 20 | 20 | 22 | 17 | 17 | 17 | 15 | 15 |
| Auto Shop and Fabrication Shop | 14 | 14 | 14 | 13 | 14 | 16 | 15 | 16 | 15 |
| Wastewater Collection | 13 | 15 | 15 | 14 | 15 | 15 | 13 | 14 | 14 |
| Mechanical Services | 26 | 27 | 27 | 27 | 30 | 30 | 30 | 28 | 29 |
| Electrical and Controls | 20 | 20 | 21 | 22 | 21 | 22 | 23 | 24 | 24 |
| Buildings, Grounds, and Pipeline Maintenance | 36 | 37 | 37 | 37 | 35 | 37 | 34 | 34 | 34 |
| Total Operations & Maintenance Division | 263 | 266 | 282 | 280 | 282 | 291 | 286 | 282 | 284 |
| <u>Engineering Division</u> | | | | | | | | | |
| General Engineering ¹ | 61 | 52 | 56 | 57 | 55 | 53 | 52 | 43 | 44 |
| Construction Management and Inspections | 36 | 44 | 39 | 40 | 38 | 39 | 39 | 35 | 33 |
| New Business Development ¹ | 20 | 34 | 28 | 25 | 25 | 26 | 20 | 17 | 18 |
| Total Engineering Division | 117 | 130 | 123 | 122 | 118 | 118 | 111 | 95 | 95 |
| <u>Planning and Resources Division</u> | | | | | | | | | |
| Planning and Resources ^{2,3} | 12 | 13 | 17 | 19 | 19 | 19 | 20 | 20 | 19 |
| Environmental and Regulatory Compliance | 8 | 9 | 7 | 8 | 8 | 9 | 9 | 9 | 10 |
| Water Quality and Laboratory | 17 | 18 | 15 | 15 | 14 | 15 | 15 | 14 | 14 |
| Source Control | 12 | 10 | 10 | 10 | 8 | 9 | 9 | 9 | 10 |
| Total Planning and Resources Division | 49 | 50 | 49 | 52 | 49 | 52 | 53 | 52 | 53 |
| <u>Executive and Administration</u> | | | | | | | | | |
| Executive and Administration | 8 | 8 | 10 | 10 | 10 | 10 | 11 | 12 | 12 |
| Public and Governmental Affairs ⁴ | 3 | 3 | 3 | 2 | 3 | 3 | 11 | 11 | 11 |
| Human Resources | 12 | 12 | 13 | 13 | 13 | 13 | 13 | 11 | 12 |
| Billing/Customer Service | 41 | 47 | 49 | 49 | 60 | 62 | 58 | 55 | 53 |
| Meter Reading | 24 | 25 | 25 | 25 | 24 | 24 | 24 | 21 | 19 |
| Finance and Accounting | 18 | 18 | 20 | 21 | 21 | 22 | 26 | 22 | 22 |
| Information Systems | 37 | 35 | 33 | 33 | 34 | 33 | 34 | 33 | 31 |
| Purchasing, Warehouse and Records Mgmt | 28 | 28 | 28 | 29 | 26 | 27 | 30 | 28 | 27 |
| Community Involvement ^{2,4} | 10 | 13 | 9 | 9 | 9 | 8 | - | - | - |
| Total Executive and Administration | 181 | 189 | 190 | 191 | 200 | 202 | 207 | 193 | 187 |
| Total Filled Positions End of Year | 610 | 635 | 644 | 645 | 649 | 663 | 657 | 622 | 619 |
| Total Authorized Positions Start of Year | Not Available | Not Available | 670 | 667 | 676 | 690 | 667 | 636 | 633 |
| Change in Authorized Positions from Prior Year | Not Available | Not Available | Not Available | (3) | 9 | 14 | (23) | (31) | (3) |
| Number of Vacant Positions as of June 30 | Not Available | Not Available | 26 | 22 | 27 | 27 | 10 | 13 | 10 |
| Vacancy Rate as of June 30 | | | 3.9% | 3.3% | 4.0% | 3.9% | 1.5% | 2.0% | 1.6% |

Notes:

Data is not readily available for fiscal years prior to 2006.

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

1. The General Engineering and New Business Development departments were reorganized in 2007.

The General Engineering department was reorganized again in 2012.

2. The Conservation work group was moved from Community Involvement to Planning and Resources in 2008.

3. The Planning and Resources department was reorganized in 2012 (formerly Water Resources Development and Management).

4. Community Involvement was restructured into Public and Governmental Affairs in 2012.

5. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30, 2012.

Source: Eastern Municipal Water District

**OPERATING AND CAPITAL INDICATORS
LAST TEN FISCAL YEARS**

| | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>POTABLE WATER SYSTEM</u> | | | | | | | | | | |
| Miles of pipeline: | | | | | | | | | | |
| transmission and distribution: ¹ | 2,051 | 2,345 | 2,442 | 2,437 | 2,444 | 2,421 | 2,428 | 2,430 | 2,443 | 2,448 |
| as-built | 1,747 | 1,817 | 1,944 | 2,038 | 2,157 | 2,260 | 2,280 | 2,296 | 2,366 | 2,376 |
| construction in progress | 304 | 528 | 498 | 399 | 287 | 161 | 148 | 134 | 77 | 72 |
| Number of storage tanks ² | 77 | 78 | 79 | 78 | 77 | 77 | 77 | 77 | 77 | 77 |
| Maximum storage capacity (million gallons) | 188 | 193 | 193 | 193 | 193 | 193 | 191 | 191 | 191 | 191 |
| Number of active pumping plants | 80 | 82 | 83 | 81 | 84 | 84 | 83 | 83 | 83 | 83 |
| Number of active wells: | | | | | | | | | | |
| domestic | 18 | 18 | 18 | 18 | 18 | 18 | 21 | 21 | 18 | 18 |
| desalter ⁶ | 2 | 9 | 7 | 5 | 5 | 7 | 7 | 8 | 7 | 11 |
| Domestic well production capacity: | | | | | | | | | | |
| gallons per minute | 19,000 | 19,747 | 22,076 | 21,597 | 21,806 | 20,361 | 22,326 | 22,285 | 23,292 | 23,382 |
| million gallons per day | 27.4 | 28.4 | 31.8 | 31.1 | 31.4 | 29.3 | 32.1 | 32.1 | 33.5 | 33.7 |
| acre feet per year | 30,407 | 31,852 | 35,609 | 34,836 | 35,173 | 32,843 | 36,013 | 35,945 | 37,570 | 37,715 |
| Number of water treatment plants: | | | | | | | | | | |
| desalter | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| filtration | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Treatment plant capacity: (million gallons per day) | | | | | | | | | | |
| desalter plants | 3.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| filtration plants | 11.4 | 11.4 | 21.4 | 32.0 | 32.0 | 32.0 | 32.0 | 32.0 | 36.0 | 36.0 |
| Number of service connections: ⁷ | | | | | | | | | | |
| active domestic accounts | 112,845 | 123,384 | 128,506 | 129,344 | 131,392 | 133,810 | 135,233 | 136,478 | 140,653 | 142,244 |
| active agriculture accounts | 139 | 130 | 129 | 140 | 143 | 146 | 124 | 122 | 131 | 133 |
| <u>SEWER SYSTEM</u> | | | | | | | | | | |
| Miles of sewer lines: ^{1,3} | 1,500 | 1,750 | 1,857 | 1,721 | 1,729 | 1,727 | 1,736 | 1,756 | 1,780 | 1,799 |
| as-built | 1,156 | 1,218 | 1,335 | 1,407 | 1,539 | 1,607 | 1,626 | 1,639 | 1,725 | 1,735 |
| construction in progress | 344 | 532 | 522 | 314 | 190 | 120 | 110 | 117 | 55 | 64 |
| Number of treatment plants | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Treatment plant average design capacity (MGD) ⁴ | 50 | 56 | 56 | 56 | 60 | 60 | 60 | 60 | 68 | 68 |
| Average million gallons per day treated | 43.3 | 44.8 | 46.0 | 46.2 | 45.2 | 45.0 | 46.0 | 45.0 | 44.8 | 44.9 |
| Percentage of capacity utilized | 87% | 80% | 82% | 82% | 75% | 75% | 77% | 75% | 66% | 66% |
| Number of active lift stations | 43 | 46 | 46 | 46 | 46 | 46 | 46 | 47 | 48 | 48 |
| <u>RECYCLED WATER SYSTEM</u> | | | | | | | | | | |
| Miles of pipeline: | | | | | | | | | | |
| transmission and distribution: ¹ | 159 | 174 | 192 | 201 | 202 | 199 | 202 | 206 | 213 | 215 |
| as-built | 135 | 149 | 156 | 165 | 172 | 178 | 179 | 186 | 196 | 198 |
| construction in progress | 24 | 25 | 36 | 36 | 30 | 21 | 23 | 20 | 17 | 17 |
| Number of active pumping facilities | 15 | 17 | 17 | 17 | 19 | 20 | 20 | 20 | 21 | 21 |
| Maximum storage capacity (acre feet) ⁵ | 6,670 | 6,571 | 6,694 | 6,764 | 5,776 | 5,714 | 5,714 | 5,721 | 5,736 | 6,184 |
| <u>GENERAL INFORMATION</u> | | | | | | | | | | |
| Service area (annexed property): | | | | | | | | | | |
| acres | 346,148 | 346,337 | 346,425 | 346,449 | 346,691 | 346,732 | 346,732 | 346,732 | 346,745 | 346,745 |
| square miles | 540.9 | 541.2 | 541.3 | 541.3 | 541.7 | 541.8 | 541.8 | 541.8 | 541.8 | 541.8 |
| Gross service area (square miles) | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 | 555 |
| Average years of service of employees | 10.63 | 9.80 | 9.98 | 10.05 | 10.20 | 10.47 | 10.84 | 11.39 | 11.31 | 12.11 |

Notes:

1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
3. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as-built amount.
4. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion to 23 MGD was completed in 2013.
5. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments. Increase in 2014 storage is due to more accurate measurements from recent surveys, plus a conversion of some secondary storage to tertiary storage.
6. Desalter wells formerly inactive were placed back into service during 2014.
7. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.

Source: Eastern Municipal Water District

**CUSTOMER ACCOUNT WRITE OFFS
AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS**

| Fiscal Year | Retail Sales | Write Offs | % of Sales |
|--------------------|-------------------------|---------------------|-------------------|
| 2005 | \$ 88,297,280 | \$ 259,410 | 0.3% |
| 2006 | 103,371,554 | 384,329 | 0.4% |
| 2007 | 121,769,923 | 724,045 | 0.6% |
| 2008 | 126,144,814 | 1,155,769 | 0.9% |
| 2009 | 139,863,262 | 1,386,075 | 1.0% |
| 2010 | 142,354,003 | 1,035,076 | 0.7% |
| 2011 | 143,427,078 | 734,381 | 0.5% |
| 2012 | 149,580,286 | 703,666 | 0.5% |
| 2013 | 159,559,632 | 717,146 | 0.4% |
| 2014 | 170,496,733 | 851,419 | 0.5% |
| Total | \$ 1,344,864,565 | \$ 7,951,316 | 0.6% |

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

**BAD DEBT RESERVES AS A PERCENTAGE
OF ACCOUNTS RECEIVABLE BALANCE
LAST TEN FISCAL YEARS**

| Fiscal Year | Year End A/R Balance | Reserves | % of A/R |
|--------------------|-----------------------------|-----------------|-----------------|
| 2005 | \$ 5,973,588 | \$ 91,578 | 1.5% |
| 2006 | 7,350,203 | 187,390 | 2.5% |
| 2007 | 9,278,477 | 368,961 | 4.0% |
| 2008 | 9,375,405 | 690,461 | 7.4% |
| 2009 | 10,377,183 | 838,543 | 8.1% |
| 2010 | 9,603,615 | 678,848 | 7.1% |
| 2011 | 11,170,339 | 610,537 | 5.5% |
| 2012 | 13,072,905 | 676,182 | 5.2% |
| 2013 | 14,195,028 | 842,850 | 5.9% |
| 2014 | 13,805,842 | 850,608 | 6.2% |

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District



2270 Trumble Road • Perris, CA • (951) 928-3777



Water
Wastewater
Recycled Water

Our Mission

To deliver value to our customers and the communities we serve by providing safe, reliable, economical and environmentally sustainable water, wastewater and recycled water services.

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APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution, the Installment Purchase Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.

MASTER RESOLUTION

CERTAIN DEFINITIONS OF THE MASTER RESOLUTION

Accreted Values. The term “Accreted Values” means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligations set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

Accreted Value Payment Date. The term “Accreted Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Accreted Value is payable.

Appreciated Value. The term “Appreciated Value” means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Appreciated Value Payment Date. The term “Appreciated Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Appreciated Value is payable.

Assumed Amortization Period. The term “Assumed Amortization Period” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the period of time determined, at the election of the District, pursuant to either paragraph (a) or paragraph (b) below:

- (a) twenty-five (25) years; or
- (b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water and sewer districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

Assumed Interest Rate. The term “Assumed Interest Rate” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the rate per annum determined as

of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii) below:

(i) a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from Federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to Federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or

(ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from Federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water and sewer districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate shall not be less than the rate specified in the "Revenue Bond Index" published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

Bond or Contract or Other Parity Reserve Fund. The term "Bond or Contract or Other Parity Reserve Fund" means any debt service reserve fund established to secure the payment of Bond Payments or Installment Payments or Other Parity Obligation Payments.

Bond Payments. The term "Bond Payments" means the principal and interest payments scheduled to be paid by the District on Bonds.

Bonds. The term "Bonds" means all revenue bonds of the District authorized, executed, issued and delivered by the District under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Business Day. The term "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of California.

Capital Appreciation Bonds. The term "Capital Appreciation Bonds" means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

Capital Appreciation Certificates. The term "Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Certificates.

Capital Appreciation Parity Obligations. The term "Capital Appreciation Parity Obligations" means Parity Obligations described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Parity Obligations, except Capital Appreciation Bonds and Capital Appreciation Certificates.

Certificate Payment Date. The term "Certificate Payment Date" mean, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

Completion Parity Obligations. The term "Completion Parity Obligations" means any Long-Term Parity Obligations or Interim Parity Obligations incurred or issued by the District for the purpose of financing the completion of a Project for which Long-Term Parity Obligations or Interim Parity Obligations have already been issued or incurred.

Contracts. The term "Contracts" means Installment Sale Agreements, Leases and Contracts of Indebtedness.

Contracts of Indebtedness. The term “Contracts of Indebtedness” means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Convertible Parity Obligations. The term “Convertible Parity Obligations” means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

Credit Enhanced Parity Obligations. The term “Credit Enhanced Parity Obligations” means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

Current Water and Sewer Revenues. The term “Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including (1) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract or Other Parity Reserve Fund or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments or Installment Payments or Other Parity Obligation Payments or is required to be deposited in the Water and Sewer Revenue Fund, and (3) benefit assessments and any proceeds of taxes to the extent the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service. The term “Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amounts of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amounts were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Installment Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amount from, in each case, the next preceding Installment Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amount from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Installment Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest portion of the Accreted Value of an such Capital Appreciation Obligations and the Appreciated Value of all such Deferred Income Obligations becoming due at maturity or on a scheduled redemption date shall be included in the calculations of Debt Service made under this definition only from and after the date (the “Calculation Date”) which

is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that “Debt Service” shall not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Debt Service Coverage Ratio. The term “Debt Service Coverage Ratio” means for the period in question the ratio of Net Water and Sewer Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio:

(a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from monies (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Obligations pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption shall have been given or arrangement shall have been made therefor, or waiver of such notice shall have been received by the District;

(b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, shall be deemed to bear interest at the Assumed Interest Rate and determined in accordance with paragraph (c) of the definition of Assumed Interest Rate and shall be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period;

(c) the interest on any Variable Rate Parity Obligations shall be calculated in accordance with the definition of Assumed Interest Rate;

(d) the annual principal and interest payment on Long-Term Parity Obligations arising from any Guaranty shall be taken into account as follows:

(i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation shall have demanded that the District pay principal of or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District’s receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payment scheduled to become due on the guaranteed obligations; or

(ii) otherwise, twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligations;

(e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with paragraph (h) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”;

(f) principal and interest on Convertible Parity Obligations shall be determined in accordance with paragraph (i) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”; and

(g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with paragraph (j) under the caption “Summary of Certain Provisions of the Master Resolution— Additional Bonds and Contracts and Other Parity Obligations”.

Defeasance Securities. The term “Defeasance Securities” means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows:

(i) any bonds or other obligations which as to principal and interest constitute direct non-callable obligations of, or are unconditionally guaranteed as to the timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; provided, however, any such bonds or obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any state as described above shall be rated “AAA” by S&P and/or “Aaa” by Moody’s; and

(iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), but only if the same constitute Refcorp interest strips, CATS, TGRS and STRPS (as such terms are used in the municipal bond industry).

Deferred Income Bonds. The term “Deferred Income Bonds” means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.

Deferred Income Certificates. The term “Deferred Income Certificates” means any certificates of participation in Installment Payments as to which accruing interest is not paid prior to the Interest Commencement Date.

Deferred Income Parity Obligations. The term “Deferred Income Parity Obligations” means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, except Deferred Income Bonds and Deferred Income Certificates.

Experienced Banker or Advisor. The term “Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution, or a reputable financial advisor experienced in advising issuers in

connection with such issuers' issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution.

Fiscal Year. The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

Generally Accepted Accounting Principles. The term "Generally Accepted Accounting Principles" means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Guaranty. The term "Guaranty" means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations; provided that "Guaranty" shall not include Maintenance and Operation Obligations.

Installment Payment Date. The term "Installment Payment Date" means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Installment Payments. The term "Installment Payments" means Contract Payments, Installment Sale Payments or Lease Payments.

Installment Sale Agreements. The term "Installment Sale Agreements" means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Installment Sale Payments. The term "Installment Sale Payments" means the Installment Sale or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

Interest Commencement Date. The term "Interest Commencement Date" means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

Interest Payment Date. The term "Interest Payment Date" means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Law. The term "Law" means the Municipal Water District Law of the State of California, being Division 20 of the Water Code of California, as amended, and any laws amendatory thereof or supplemental thereto.

Lease Payments. The term "Lease Payments" means the rental payments scheduled to be paid by the District under and pursuant to Leases.

Leases. The term "Leases" means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with the payment of any other Parity Obligations.

Liquidity Backer. The term “Liquidity Backer” means any bank or other financial institution whose long term indebtedness is rated AA or better by Standard & Poor’s Corporation or whose long term indebtedness is rated Aa or better by Moody’s Investors Service, Inc., such ratings to be determined without regard to “+” or “-”.

Long-Term. The term “Long-Term” when used in connection with Parity Obligations, shall mean Parity Obligations having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which shall not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all cash of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountant; but excluding in an cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amount paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

Maintenance and Operation Obligation. The term “Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payment thereunder are to constitute Maintenance and Operation Costs.

Master Resolution. The term “Master Resolution” means the Master Resolution as defined in the front portion of this Official Statement.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in paragraph (e) under the caption “Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations”) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Monthly Accrued Debt Service. The term “Monthly Accrued Debt Service” means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts and Other Parity Obligations accrued and to accrue to the end of such month.

Net Water and Sewer Revenues. The term “Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

Obligation. The term “Obligation” means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Water and Sewer System; (b) the liability of the District under any lease or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

Option Bonds. The term “Option Bonds” means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates. The term “Option Certificates” means any certificates of participation in Installment Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations. The term “Option Parity Obligations” means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligations. The term “Other Parity Obligations” means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Other Parity Obligation Payments. The term “Other Parity Obligation Payments” means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Dates. The term “Other Parity Obligation Payment Dates” means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Outstanding. The term “Outstanding” means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments. The term “Parity Obligation Payments” means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations. The term “Parity Obligations” means all Obligations, the payments of which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date. The term “Principal Payment Date” means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

Project. The term “Project” means a specified list of any additions, betterment, extensions or improvements to the Water and Sewer System.

Refunding Parity Obligations. The term “Refunding Parity Obligations” means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement. The term “Reimbursement Agreement” means an agreement between the District and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water and Sewer Revenues on a parity with all Other Parity Obligations.

Reimbursement Payments. The term “Reimbursement Payments” means amount payable by the District as compensation or reimbursement for draws or the right to make a draw on a letter of credit, reserve fund insurance

policy, guaranty or surety bond for the purpose of making Bond Payment or Installment Payments or Other Parity Obligation Payment in accordance with any Reimbursement Agreement.

Short Term. The term “Short-Term” when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments. The term “Subordinate Obligation Payments” means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations. The term “Subordinate Obligations” means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Water and Sewer Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Parity Obligation Payments.

Trust Agreement. The term “Trust Agreement” means any resolution, indenture or trust agreement providing for the issuance of Bonds or certificates of participation or any Other Parity Obligation.

Valuation Date. The term “Valuation Date” means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations. The term “Variable Rate Parity Obligations” means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

Water and Sewer Revenues. The term “Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Service. The term “Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term “Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

ESTABLISHMENT OF FUNDS

The District establishes and agrees to maintain, so long as any Parity Obligations or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water and Sewer Revenue Fund, an Operating Fund, an Installment Payment Fund, an Operating Reserve Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the District. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution and shall

be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

DEPOSITS AND WITHDRAWALS FROM RATE STABILIZATION FUND

From time to time the District may deposit in the Rate Stabilization Fund from Current Water and Sewer Revenues such amount as the District shall determine. All amounts transferred by the District from the Rate Stabilization Fund to the Water and Sewer Revenue Fund shall be used by the District solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water and Sewer Revenues.

USE OF OTHER FUNDS

The District may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations.

The District may withdraw amounts from the Subordinate Obligation Payment Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at the times and in the amounts required by applicable Subordinate Obligations or resolutions, trust agreements or indentures securing such Subordinate Obligations.

The District may withdraw money in the General Reserve Fund for any lawful purpose of the District, except to make transfers to the Rate Stabilization Fund.

The District may withdraw amounts from the Operating Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs.

The District may withdraw amounts from the Operating Reserve Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs to the extent sufficient funds are not otherwise available within the Operating Fund for such purposes. If at any time the amount on deposit in the Operating Reserve Fund is in excess of 1/4 of the Maintenance and Operation Costs as set forth in the then current annual budget of the District, the District may transfer such excess to the General Reserve Fund.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Installment Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Net Water and Sewer Revenues on a parity with the 1991 Installment Sale Agreement and all Other Parity Obligations; provided:

a. The District shall file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

b. Such Bond or Contract or Other Parity Obligation shall not allow the declaration of Bond Payments or Installment Payments or Other Parity Obligation Payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

c. Long-Term Parity Obligations may be incurred provided that one of the following tests is satisfied:

1. the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; or

2. (A) the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking in to account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred and (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; and

(B) taking into account the matters listed in clauses (i), (iii) and (iv) of paragraph (A) above, plus the then proposed Long-Term Parity Obligations, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

d. Completion Parity Obligations may be incurred without satisfying any of the tests described in the Master Resolution.

e. Refunding Parity Obligations may be incurred provided that the report or opinions set forth in paragraph (c) above shall be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, would not be increased by more than 5%; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph (e) only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (1) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public account as sufficient for such purpose; provided that notice of such redemption shall have been given or arrangements shall have been made therefor, or waiver of such notice shall have been received by the District.

f. Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this subsection does not exceed fifteen percent (15%) of the Net Water and Sewer Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations shall be reduced to an aggregate Outstanding principal amount not exceeding five percent (5%) of the Net Water and Sewer Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this subsection shall be deemed incurred pursuant to paragraph (c) above (and shall no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District shall be delivered to each Trustee pursuant to paragraph (c) above, which Certificate shall include such Parity Obligations.

g. Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there shall be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by either part (1) of paragraph (c) above or part (2) of paragraph (c) above demonstrating that all requirements of either part (1) of paragraph (c) above or part (2) of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion shall be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but shall not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraphs (e) or (g) above, the reports or opinions set forth in part (2) of paragraph (c) above need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (d) or (f) above.

h. In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Options Certificates or other Option Parity Obligations shall not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations shall be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

i. Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and this conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with the trustee under each Trust Agreement. If such a Certificate of the District is not filed with the trustee under each Trust Agreement, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

j. In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners

of such Credit Enhanced Parity Obligations (the “Credit Enhancers”) shall not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations shall be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

OTHER OBLIGATIONS

a. Amounts to be paid by the District with respect to any Maintenance and Operation Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is entered into the District shall deliver to the trustee under each Trust Agreement a Certificate of the District to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the District’s ability to comply with its rate covenant (see, “The Certificates - Rate Covenant” in the front portion of the Official Statement) during the next five Fiscal Years or five Fiscal Years beyond the commercial operation date of the Project being financed with such Obligation, whichever is later, and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If the amounts to be paid by the District for a Maintenance and Operation Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred, the District demonstrates compliance with the tests described above under “Additional Bonds and Contracts and Other Parity Obligations,” in which event such amounts may be paid from the Installment Payment Fund.

b. Subordinated Obligations may be incurred without meeting any of the tests described above under “Additional Bonds and Contracts and Other Parity Obligations.”

ADDITIONAL COVENANTS OF THE DISTRICT

Against Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the Water and Sewer System and will keep the Water and Sewer System free of any and all liens against any portion of the Water and Sewer System. In the event any such lien attaches to or is filed against any portion of the Water and Sewer System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water and Sewer System or any part thereof essential to the proper operation of the Water and Sewer System or to the maintenance of the Net Water and Sewer Revenues, and will not enter into any agreement or lease which would impair the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Water and Sewer Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or Other Parity Obligations with respect to the Net Water and Sewer Revenues or the operation of the Water and Sewer System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water and Sewer Revenues below the requirements of the District’s rate covenant.

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

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on an Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to each Trustee.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water and Sewer System and all other contracts affecting or involving the Water and Sewer System to the extent that the District is a party thereto.

No Superior Liens. The District will not create or allow any lien or payment from the Net Water and Sewer Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligation.

Insurance. The District will procure and maintain such insurance relating to the Water and Sewer System which it shall deem advisable or necessary (based on the annual written report and approval of an independent insurance consultant) to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water and Sewer System; provided, the District shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with the facilities, properties, structures and works similar to the Water and Sewer System.

ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

a. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water and Sewer System, which records shall be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

b. The District will prepare and file with each Trustee annually within one hundred and eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1991):

(1) financial statement of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statement stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water and Sewer System as of the close of such Fiscal year, including the names of the insurers which have issued the policies, the amounts thereof and the property or risks covered thereby and a copy of the current annual report of the District's independent insurance consultant.

c. The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable detail the result of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facility, properties, structures or works of the District and the insurance therein being maintained. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirement of any governmental authority relative to the operation of the Water and Sewer System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water and Sewer Service and will not permit any part of the Water and Sewer System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any, city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water and Sewer Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water and Sewer System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water and Sewer System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed component of the Water System or applied to the cancellation of Parity Obligations.

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined in the Installment Purchase Agreement will for all purposes thereof and of any amendment thereof or supplement thereto and of any report or other document mentioned therein have the meanings defined in the Installment Purchase Agreement, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. Unless the context otherwise requires, all capitalized terms used in the Installment Purchase Agreement and not defined therein have the meanings ascribed thereto in the Indenture.

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

Acquisition Fund. The term "Acquisition Fund" means the fund by that name created pursuant to the Installment Purchase Agreement.

Authority. The term "Authority" means the Eastern Municipal Water District Financing Authority, a public body duly organized and existing under the Joint Exercise of Powers Agreement, and under the Constitution and laws of the State.

Bonds. The term "Bonds" means the 2014A Bonds, the 2014B Bonds, the 2014C Bonds and all other revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the Installment Payments and which are secured by a pledge of and lien on Net Revenues as described in the Installment Purchase Agreement. The term "Bonds" as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and "Bonds" as defined in the Installment Purchase Agreement constitute "Subordinate Obligations" under the Master Resolution so long as the Master Resolution is operative.

Continuing Disclosure Certificate. The term "Continuing Disclosure Certificate" means the Continuing Disclosure Certificate of the District, dated the Closing Date and relating to the 2015B Bonds, as originally executed and as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term "Contracts" means the Installment Purchase Agreement and any amendments and supplements thereto, the Liquidity Facilities, the 2008C Swap, the 2014C Swap and all other contracts of the District previously or subsequently authorized and executed by the District, the Parity Installment Payments with respect to which are payable from Net Revenues on a parity with the Installment Payments and which are secured by a pledge

of and lien on Net Revenues as described in the Installment Purchase Agreement; and excluding contracts entered into for maintenance and operation of the Water and Sewer System. The term “Contracts” as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and “Contracts” as defined in the Installment Purchase Agreement constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

Corporation. The term “Corporation” means the Eastern Municipal Water District Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State.

Current Water and Sewer Revenues. The term “Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including: (i) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund; (ii) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Payment Fund or any Bond or Contract or Other Parity Reserve Fund (as all of such terms are defined in the Master Resolution and for so long as such funds are operative) or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a resolution, indenture or trust agreement providing for the issuance of Parity Obligations, Bonds or Contracts to the extent that such income is required to be available to make payments on Parity Obligations, Bonds or Contracts or is required to be deposited in the Water and Sewer Revenue Fund; and (iii) benefit assessments and any proceeds of taxes to the extent that the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations or Subordinate Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of: (i) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);(ii) those portions of the principal amount of all outstanding serial Bonds maturing in such period; (iii) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; (iv) those obligations under the Contracts required to be paid by the District during such period (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program), including but not limited to certain regularly scheduled payments made pursuant to the 2008C Swap, the 2014C Swap and any other Contract which is an interest rate swap agreement to the extent that such payments are due and payable; and (v)so long as any Liquidity Facility is in effect, the principal amount of any amounts owing thereunder, with interest thereon as provided in such Liquidity Facility; but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts; provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest: (I) for periods when the actual interest rate can be determined, at the actual interest rate; and (II) for periods when the actual interest rate cannot be determined: (A) if interest on such Bonds or Contracts has accrued for at least twelve (12) months, at the average interest rate with respect to such Bonds or Contracts over the preceding twelve (12) months; or (B) if interest on such Bonds or Contracts has not accrued for at least twelve (12) months, at: (y) the average of the Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the Securities Industry and Financial Markets Association Index or other index for such Bonds or Contracts, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds or Contracts were issued or delivered,

as applicable; or (z) the average of the one-month London Interbank Offered Rate for taxable variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the London Interbank Offered Rate for taxable variable rate obligations, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds or Contracts were issued or delivered, as applicable; provided further that if any series or issue of such Bonds or Contracts have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined, at the election of the District, either when due and payable or, for the period of determination, as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will not be treated as interest in the calculation of Debt Service and any interest payable on such Bonds or Contracts will be calculated only when due and payable; and provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations but only if the applicable Paired Obligations satisfy the requirements set forth in the Installment Purchase Agreement; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

The term “Debt Service” as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and “Debt Service” as defined in the Installment Purchase Agreement constitute “Subordinate Obligation Payments” under the Master Resolution so long as the Master Resolution is operative.

District. The term “District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

Event of Default. The term “Event of Default” means an event described in the Installment Purchase Agreement.

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve month period selected and designated as the official Fiscal Year of the District.

General Manager. The term “General Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

General Reserve Fund. The term “General Reserve Fund” means the fund by that name established pursuant to the Master Resolution.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of June 1, 2015, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap advisor, and who, or each of whom: (i) is in fact independent and not under domination of the District; (ii) does not have any substantial interest, direct or indirect, with the District; and (iii) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in the Installment Purchase Agreement.

Installment Payment Date. The term “Installment Payment Date” means the fourth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

Installment Payments. The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of June 1, 2015, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Interest Payment Date. The term “Interest Payment Date” means January 1 and July 1 of each year, commencing January 1, 2016.

Joint Exercise of Powers Agreement. The term “Joint Exercise of Powers Agreement” means that certain Joint Exercise of Powers Agreement, dated as of April 1, 2015, by and between the District and Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, a community facilities district duly organized and validly existing pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.* of the California Government Code, as amended from time to time.

Law. The term “Law” means the Municipal Water District Law of the State (being Division 20 of the Water Code of the State of California, as amended), and all laws amendatory thereof or supplemental thereto.

Liquidity Facilities. The term “Liquidity Facilities” means the standby bond purchase agreements, lines of credit, loans, guaranties or similar agreements issued to provide liquidity support to pay the purchase price of the 2014C Bonds, the 2014B Bonds and the 2014A Bonds or any other Bonds or Contracts tendered for purchase in accordance with the provisions thereof.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, Bonds or Contracts, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, Bonds or Contracts, fees and expenses of independent certified public accountants and amounts due to Liquidity Facility providers not constituting principal or interest; but excluding in all cases: (i) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts; (ii) interest expense; (iii) non-cash expenses attributable to pension plans, other retirement accounts and other post-employment benefits; and (iv) amounts paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes to the extent that such ad valorem property taxes do not constitute Water and Sewer Revenues).

Maintenance and Operation Obligation. The term “Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or

guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operation Costs.

Master Resolution. The term “Master Resolution” means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, and as it may be from time to time further modified, amended or supplemented.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described in the Installment Purchase Agreement.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any Fiscal Year or other period, the Net Water and Sewer Revenues during such Fiscal Year or period less all net amounts payable by the District on the Parity Obligations during such Fiscal Year or period. When held by the Trustee in any funds or accounts established under the Installment Purchase Agreement, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Net Water and Sewer Revenues. The term “Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the District.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, and which comply with the provisions of the Installment Purchase Agreement.

Parity Installment Payment Date. The term “Parity Installment Payment Date” means each date on which Parity Installment Payments are scheduled to be paid by the District under and pursuant to any Contract.

Parity Installment Payments. The term “Parity Installment Payments” means the payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts.

Parity Obligations. The term “Parity Obligations” means all revenue bonds, contracts and other obligations of the District (excluding contracts entered into for maintenance and operation of the Water and Sewer System) which are secured by a pledge of and lien on the Net Water and Sewer Revenues and payable from Net Water and Sewer Revenues on a senior basis to Bonds and Contracts, including but not limited to: (i) the District’s Refunding Water and Sewer Revenue Bonds, Series 2013A; (ii) the District’s Refunding Water and Sewer Revenue Bonds, Series 2012A; (iii) the District’s Refunding Water and Sewer Revenue Bonds, Series 2011A; (iv) the 2008C Installment Sale Agreement, dated as of June 1, 2008, by and between the District and the Corporation, as amended; (v) the 2008H Installment Sale Agreement, dated as of August 1, 2008, by and between the District and the Corporation; (vi) the Third Amendment to 1991A Installment Sale Agreement, dated as of May 1, 2007, by and between the District and the Corporation; (vii) the 2006A Installment Sale Agreement, dated as of February 1, 2006, by and between the District and the Corporation; and (viii) the Parity State Loans.

Parity State Loans. The term “Parity State Loans” means, collectively: (i) Water Conservation Construction Loan Contract No. E64010, dated May 25, 2000, by and between the District and DWR, relating to the Sun City Pipeline Replacement Project, as amended by Amendment A-1 thereto dated October 28, 2002, in the

original principal amount of approximately \$3,150,000; (ii) Water Conservation Construction Loan Contract No. E65002, dated May 25, 2000, by and between the District and DWR, relating to the Sun City Pipeline Replacement Project, in the original principal amount of approximately \$2,000,000; (iii) Safe Drinking Water State Revolving Fund Loan Contract No. SRF02LMX101, dated March 3, 2005, by and between the District and DWR, relating to the Hemet Water Filtration Plant (Project No. 3310009-52), in the original principal amount of approximately \$42,098,388; (iv) State Revolving Fund Loan Contract No. 08-845-550, dated June 23, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Secondary Clarifier and Tertiary Treatment Project (Project No. C-06-5100-110), in the original approved principal amount of approximately \$38,362,890; (v) State Revolving Fund Loan Contract No. 09-809-550, dated September 15, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Acid Phase Anaerobic Digestion Project (Project No. C-06-5311-110), as amended by Amendment No. 1 thereto, dated January 29, 2010, in the original approved principal amount of approximately \$43,546,128; (vi) State Revolving Fund Loan Contract No. 10-804-550, dated March 23, 2011, by and between the District and SWRCB, relating to the San Jacinto Valley Regional Water Reclamation Facility Tertiary Treatment Upgrade and Plan 2 Facilities Project (Project No. C-06-5159-110), in the original approved principal amount of approximately \$145,000,000; (vii) State Revolving Fund Loan Contract No. 10-839-550, by and between the District and SWRCB, relating to the Temecula Valley Regional Water Reclamation Facility 18 MGD Reliable Capacity Upgrade Project (Project No. C-06-5312-110), as amended by Amendment No. 1, in the original approved principal amount of approximately \$18,422,420; (viii) State Revolving Fund Loan Contract No. 11-835-550, by and between the District and SWRCB, relating to the Enchanted Heights Sewer System Project (Project No. C-06-7203-110), in the original approved principal amount of approximately \$5,000,000; and (ix) Any future loans by and between the District and any State entity payable from Net Water and Sewer Revenues on a parity with the Parity Obligations.

Project. The term “Project” means the financing of the Water and Sewer System facilities described in the Installment Purchase Agreement.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms of the Installment Purchase Agreement as provided therein.

Rate Stabilization Fund. The term “Rate Stabilization Fund” means the fund by that name established pursuant to the Master Resolution.

Subordinate Obligation. The term “Subordinate Obligation” has the meaning set forth in the Master Resolution.

Subordinate Obligation Payment Fund. The term “Subordinate Obligation Payment Fund” means the fund by that name established pursuant to the Master Resolution and, in the event that the Master Resolution is no longer operative, continued pursuant to the Installment Purchase Agreement.

2008C Swap. The term “2008C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated December 12, 2014, and each by and between Wells Fargo Bank, N.A. and the District, relating to the District’s Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C, and all exhibits thereto, as amended or restated from time to time.

2014A Bonds. The term “2014A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014A issued by the District pursuant to the Indenture of Trust, dated as of June 1, 2014, by and between the District and the Trustee.

2014B Bonds. The term “2014B Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014B issued by the District pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Bonds. The term “2014C Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Swap. The term “2014C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated October 31, 2014, and each by and between Wells Fargo Bank, N.A. and the District, relating to the 2014C Bonds, and all exhibits thereto, as amended or restated from time to time.

2015B Bonds. The term “2015B Bonds” means the Eastern Municipal Water District Financing Authority Refunding Water and Wastewater Revenue Bonds, Series 2015B issued by the Authority pursuant to the Indenture.

Water and Sewer Revenues. The term “Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Revenue Fund. The term “Water and Sewer Revenue Fund” means the fund by that name established pursuant to the Master Resolution.

Water and Sewer Service. The term “Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term “Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

Written Consent of the Authority or District; Written Order of the Authority or District; Written Request of the Authority or District; Written Requisition of the Authority or District. The terms “Written Consent of the Authority or District,” “Written Order of the Authority or District,” “Written Request of the Authority or District,” and “Written Requisition of the Authority or District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of: (i) the Authority by its Authorized Representative; or (ii) the District by the President of its Board of Directors or its General Manager or by the Secretary of its Board of Directors or by any two persons (whether or not officers of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

SALE AND PURCHASE OF PROJECT

Sale and Purchase of the Project. In consideration for the Authority’s assistance in financing the Project, the District has agreed to sell, and has sold, to the Authority, and the Authority has agreed to purchase, and has purchased, from the District, the Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in the Installment Purchase Agreement, the Authority has agreed to sell, and has sold, to the District, and the District has agreed to purchase, and has purchased, from the Authority the Project at the Purchase Price specified in the

Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Title. All right, title and interest in each portion of the Project will vest in the District immediately upon acquisition or construction thereof, without further action of the Authority or the District.

Acquisition and Construction of the Project. The Authority has agreed to cause the Project to be constructed, acquired and installed by the District as its agent. The District will enter into contracts and provide for, as agent for the Authority, the complete construction, acquisition and installation of the Project. The District has agreed that it will cause the construction, acquisition and installation of the Project to be diligently performed after the deposit of funds into the Acquisition Fund, and that it will use its best efforts to cause the construction, acquisition and installation of the Project to be completed. It has been expressly understood and agreed that the Authority is under no liability of any kind or character whatsoever for the payment of any cost of the Project and that all such costs and expenses will be paid by the District.

Changes to the Project. The District may substitute other improvements for those listed as components of the Project in the Installment Purchase Agreement, but only if the District first files with the Authority and the Trustee a statement of the District: (a) identifying the improvements to be substituted and the improvements to District facilities they replace in the Project, as applicable; and (b) stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned.

Acquisition Fund. There has been established with the District a special fund designated the "Acquisition Fund." The Trustee will transfer proceeds of the 2015B Bonds to the District in accordance with the Indenture for deposit in the Acquisition Fund. The moneys in the Acquisition Fund will be held by the District in trust and moneys therein will be applied to the payment of the costs of acquisition and construction of the Project and of expenses incidental thereto. Before any payment is made from the Acquisition Fund by the District, the General Manager of the District will cause to be filed with the Deputy General Manager of the District a Written Requisition of the District in the form set forth in the Installment Purchase Agreement.

When the Project has been constructed and acquired in accordance with the Installment Purchase Agreement, a statement of the District stating the fact and date of such acquisition, construction and acceptance and stating that all of such costs of acquisition and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved), will be delivered by the General Manager of the District to the Deputy General Manager of the District. Upon the receipt of such statement, the District will transfer any remaining balance in the Acquisition Fund not needed for Acquisition Fund purposes (but less the amount of any such retention which amount will be certified to the Deputy General Manager of the District by the General Manager of the District) to the Subordinate Obligation Payment Fund.

INSTALLMENT PAYMENTS

Purchase Price. (a) The Purchase Price to be paid by the District under the Installment Purchase Agreement to the Authority is the sum of the principal amount of the District's obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein. (b) The principal amount of the payments to be made by the District under the Installment Purchase Agreement is set forth therein. (c) The interest to accrue on the unpaid balance of such principal amount is as specified in the Installment Purchase Agreement, and will be paid by the District as and constitute interest paid with respect to the principal amount of the District's obligations thereunder.

Installment Payments. The District will, subject to any rights of prepayment provided Installment Purchase Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Installment Payment Dates as set forth in the Installment Purchase Agreement.

Each Installment Payment will be paid to the Authority in lawful money of the United States of America. In the event that the District fails to make any of the payments required to be made by it under the Installment

Purchase Agreement, such payment will continue as an obligation of the District until the amount thereof has been fully paid; and the District has agreed to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Installment Payments if paid in accordance with their terms.

SECURITY

Obligations Subordinate to the Installment Payments. Notwithstanding any other provision of the Installment Purchase Agreement, the District may issue or execute and deliver, as applicable, obligations that are payable from Net Revenues on a subordinate basis to the Installment Payments at any time in the District's sole discretion.

Senior Obligations. Notwithstanding any other provision of the Installment Purchase Agreement, the District may issue or execute and deliver, as applicable, additional obligations payable on a basis senior to the Installment Payments in accordance with the Master Resolution.

Investments. All moneys held by the District in the Subordinate Obligation Payment Fund will be invested in Permitted Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Installment Purchase Agreement.

COVENANTS OF THE DISTRICT

Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all of the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained therein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to the Installment Purchase Agreement that, subject to the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement is an essential and material term of the purchase of and payment for the Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all of the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The District will not make any pledge of or place any lien on Net Revenues or the moneys in the Subordinate Obligation Payment Fund except as provided in the Installment Purchase Agreement. The District may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Installment Purchase Agreement. The District may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Net Revenues or any moneys in the Subordinate Obligation Payment Fund as may from time to time be deposited therein, provided that such pledge and lien will be subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net

Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Authority under the Installment Purchase Agreement or the operation of the Water and Sewer System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the Installment Payments and if the proceeds of such sale are deposited in the Water and Sewer Revenue Fund.

Nothing in the Installment Purchase Agreement restricts the ability of the District to sell any portion of the Water and Sewer System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water and Sewer System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water and Sewer System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the District has covenanted that it will not acquire, construct, 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 agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water or sewer system competitive with the Water and Sewer System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the 2015B Bonds will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2015B Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the 2015B Bonds or of any other moneys or property which would cause the 2015B Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the 2015B Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the 2015B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the 2015B Bonds or take or omit to take any action that would cause the 2015B Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2015B Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2015B Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2015B Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2015B Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will take no action, or omit to take any action, inconsistent with the expectations stated in any Tax Certificate executed with respect to the 2015B Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Installment Purchase Agreement.

The foregoing tax covenants are not applicable to, and nothing contained in the Installment Purchase Agreement will be deemed to prevent the District from issuing Bonds or executing and delivering Contracts, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Maintenance and Operation of the Water and Sewer System. The District will maintain and preserve the Water and Sewer System in good repair and working order at all times, operate the Water and Sewer System in an efficient and economical manner and pay all Maintenance and Operation Costs 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 the funds or accounts created under the Installment Purchase Agreement or on any funds in the hands of the District pledged to pay the Installment Payments or to the 2015B Bond Owners prior or superior to the lien of the Installment Payments, or which might impair the security of the Installment Payments.

Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay Installment Payments; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Water and Sewer System, to the extent that the District is a party thereto.

Insurance. (a) The District will procure and maintain or cause to be procured and maintained insurance on the Water and Sewer System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water and Sewer System) as are usually covered in connection with facilities similar to the Water and Sewer System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water and Sewer System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water and Sewer System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Water and Sewer System will be free and clear of all claims and liens.

(b) The District will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2015B Bond Owners, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with municipal water and sewer systems similar to the Water and Sewer System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water and sewer systems similar to the Water and Sewer System and is, in the opinion of an accredited actuary, actuarially sound.

Accounting Records; Financial Statements and Other Reports. (a) The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the District, which records will be available for inspection by the Authority and the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions. (b) The District will prepare and file with the Authority and the Trustee annually within 270 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2015) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may subsequently be lawfully imposed upon the Water and Sewer System, or any part thereof or upon the Net Revenues when the same becomes due. The District will

duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water and Sewer System, or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water and Sewer Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water and Sewer System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied to the acquisition and construction of additions, betterments, extensions or improvements to the Water and Sewer System, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Water and Sewer Revenue Fund.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it therein.

Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or subsequently entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay Installment Payments.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate to be executed and delivered by the District in connection with the issuance of the 2015B Bonds. Notwithstanding any other provision of the Installment Purchase Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner of 2015B Bonds or Beneficial 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 the Installment Purchase Agreement. For purposes of the Installment Purchase Agreement, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2015B Bonds (including persons holding 2015B Bonds through nominees, depositories or other intermediaries).

PREPAYMENT OF INSTALLMENT PAYMENTS

Prepayment. (a) The District may prepay the Installment Payments maturing on or after the Installment Payment Date preceding July 1, 2026, as a whole or in part, or as otherwise selected by the District, on any date on or after July 1, 2025, from any available funds. The principal amount of the unpaid Installment Payments is payable at a prepayment price equal to the principal amount of the Installment Payments to be prepaid plus accrued interest thereon to the date of prepayment, without premium.

(b) Notwithstanding any such prepayment, the District will not be relieved of its obligations under the Installment Purchase Agreement until the Purchase Price has been fully paid (or provision for payment thereof has been provided to the written satisfaction of the Authority).

Method of Prepayment. Before making any prepayment pursuant to the Installment Purchase Agreement, the District may, within five days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment of the Installment Payments will be made, which date must not be less than 40 days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date must be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Indenture.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default. The following events are Events of Default under the Installment Purchase Agreement: (a) Default is made by the District in the due and punctual payment of any Installment Payment or any Contract or Bond when and as the same becomes due and payable; (b) Default is made by the District in the performance of any of the other agreements or covenants required in the Installment Purchase Agreement or in any Contract or Bond to be performed by it, and such default has continued for a period of 60 days after the District has been given notice in writing of such default by the Authority; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the District within such 60 day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Installment Purchase Agreement; (c) The District files a petition or answer 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 a court of competent jurisdiction approves a petition filed with or without 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 assumes custody or control of the District or of the whole or any substantial part of its property; or (d) Payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

Remedies of the Authority. If any Event of Default occurs and is continuing, the Authority has the right: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority will not have a security interest in or mortgage on the Project, the Water or Sewer System or other assets of the District, and no default under the Installment Purchase Agreement will result in the loss of the Project, the Water or Sewer System or other assets of the District.

The Authority will have no right to accelerate the payment of the Installment Payments.

Non-Waiver. Nothing in the Installment Purchase Agreement or in any other provision thereof affects or impairs the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Subordinate Obligation Payment Fund and the other funds therein pledged for such payment, or affects or impairs the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority will 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 Authority to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will 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 Authority by the Law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the District and the Authority will 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 conferred upon or reserved to the Authority in the Installment Purchase Agreement is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or later 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 the Law or any other law. If any remedial action is discontinued or abandoned, the Trustee and 2015B Bond Owners will be restored to their former positions.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When:

(a) all or any portion of the Installment Payments have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the District to prepay all or any portion of the Installment Payments has been filed with the Trustee; and

(b) there has been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (i) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision has been made for paying all fees and expenses of the Trustee; and

(d) the principal amount of the 2015B Bonds equal to the principal component of the Installment Payments to be discharged under the Installment Purchase Agreement has been deemed no longer outstanding under the Indenture because of the application of funds or Permitted Investments received under clauses (a) and (b);

then and in that event, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the District thereunder will, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Installment Payments). In such event, upon request of the District, the Trustee will cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the District, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Installment Payments, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of the Installment Payments and will be applied by the Trustee to the payment of the Installment Payments of the District.

MISCELLANEOUS

Liability of District Limited to Net Revenues. The obligation of the District to make the Installment Payments is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the District or of the State or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained in the Installment Purchase Agreement, the District is not required to advance any moneys derived from any source of income other than the Net Revenues and the Subordinate Obligation Payment Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained therein. The District may, however, 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.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the District or the Authority

any right, remedy or claim under or pursuant thereto, and any agreement or covenant required therein to be performed by or on behalf of the District or the Authority is for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Authority is named or referred to in the Installment Purchase Agreement, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Authority, and all agreements and covenants required thereby to be performed by or on behalf of the District or the Authority will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Compensation and Indemnification of Trustee. The District will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The District will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust created under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the obligations of the District under the Installment Purchase Agreement will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2015B Bonds and the Indenture.

Waiver of Personal Liability. No director, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Agreement relieves any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the District or the Authority is contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Installment Purchase Agreement. The District and the Authority have declared that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The Installment Purchase Agreement and any rights thereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the District.

Net Contract. The Installment Purchase Agreement will be deemed and construed to be a net contract, and the District will pay absolutely net during the term thereof the Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. THE INSTALLMENT PURCHASE AGREEMENT IS CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Effective Date. The Installment Purchase Agreement will become effective upon its execution and delivery, and will terminate when the Purchase Price has been fully paid (or provision for the payment thereof has been made to the written satisfaction of the Authority).

Indemnification of Authority. The District has agreed to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the Installment Purchase Agreement and under the Indenture; provided that no indemnification will be made for willful misconduct,

negligence or breach of an obligation under the Installment Purchase Agreement or under the Indenture by the Authority.

Amendments Permitted.

(a) The Installment Purchase Agreement and the rights and obligations of the Authority, the District, the Owners of the 2015B Bonds and the Trustee may be modified or amended at any time by an amendment thereto which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the 2015B Bonds then Outstanding, exclusive of 2015B Bonds disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2015B Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2015B Bond so affected; or (2) reduce the aforesaid percentage of 2015B Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Installment Purchase Agreement, or deprive the Owners of the 2015B Bonds of the lien created by the Indenture on such Net Revenues and other assets except as permitted in the Installment Purchase Agreement, without the consent of the Owners of all of the 2015B Bonds then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the Authority, the District and of the Owners of the 2015B Bonds may also be modified or amended at any time by an amendment thereto which will become binding upon adoption, without the consent of the Owners of any 2015B Bonds, if the Trustee has received an opinion of Bond Counsel to the effect that the provisions of such amendment will not materially adversely affect the interests of the Owners of the Outstanding 2015B Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Authority or the District, and which will not adversely affect the interests of the Owners of the 2015B Bonds;

(2) 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 Installment Purchase Agreement, as the Authority and the District may deem necessary or desirable;

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the 2015B Bonds; and

(4) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest with respect to the 2015B Bonds from gross income for federal income tax purposes under the Code or the exemption of such interest from State personal income taxes.

No amendment without consent of the Owners of the 2015B Bonds may modify any of the rights or obligations of the Trustee without its written consent thereto.

Paired Obligation Provider Guidelines. For purposes of the Installment Purchase Agreement, Paired Obligations will comply with the following conditions:

(a) A Paired Obligation Provider will initially have a long-term rating of any two of the following: (i) A- or better by S&P; (ii) A- or better by Fitch; and (iii) A3 or better by Moody's.

(b) So long as the long-term rating of the Paired Obligation Provider is not reduced below: (i) BBB by S&P; (ii) BBB by Fitch; or (iii) Baa2 by Moody's, the interest rate of such Paired Obligation will be

deemed to be equal to the effective interest rate payable by the District with respect to such Paired Obligation for purposes of the Installment Purchase Agreement.

(c) In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the District does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within thirty (30) Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of the Installment Purchase Agreement without regard to payments to be received from the Paired Obligation Provider.

INDENTURE

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture will, for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and plural forms of any of the terms therein defined. Unless the context otherwise requires, all capitalized terms used in the Indenture and not defined have the meanings ascribed thereto in the Installment Purchase Agreement.

Accountant. The term “Accountant” means any firm of independent certified public accountants selected by the Authority in its sole discretion.

Acquisition Fund. The term “Acquisition Fund” means the fund by that name established pursuant to the Installment Purchase Agreement.

Authority. The term “Authority” means the Eastern Municipal Water District Financing Authority, a public body duly organized and existing under the Joint Exercise of Powers Agreement, and under the Constitution and laws of the State of California.

Authority Revenues. The term “Authority Revenues” means: (a) all Installment Payments received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Agreement; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

Authorized Representative. The term “Authorized Representative” means with respect to the Authority, its Chair, Vice Chair, Secretary, Treasurer or Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair, Vice Chair, Secretary, Treasurer or Executive Director and filed with the Trustee.

Bond Counsel. The term “Bond Counsel” means Stradling, Yocca, Carlson & Rauth, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Year. The term “Bond Year” means the period beginning on the date of issuance of the 2015B Bonds and ending on July 1, 2016, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2015B Bonds.

Business Day. The term “Business Day” means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms “Certificate,” “Direction,” “Request,” and “Requisition” of the Authority mean a written certificate, direction, request or requisition signed in the name of the Authority by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the

two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

Closing Date. The term “Closing Date” means the date on which the 2015B Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Depository; DTC. The terms “Depository” and “DTC” mean The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the 2015B Bonds.

District. The term “District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

Event of Default. The term “Event of Default” means any of the events specified in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general 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 of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the Authority.

Government Code. The term “Government Code” means the Government Code of the State.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of June 1, 2015, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may specify in a certificate to the Authority and the Trustee as the Trustee may select.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of June 1, 2015, by and between the Authority and the District, as amended from time to time.

Interest Account. The term “Interest Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means January 1 and July 1 of each year commencing January 1, 2016.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel, provided that, without limiting the foregoing, any such Investment Agreement will: (i) be fully collateralized or from a provider rated “A-” or “A3” or above by S&P or Moody’s, respectively; (ii) if not fully collateralized, require the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB+” or “Baa1” or below, respectively; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the 2015B Bonds, together with such amendments as may be approved by the District and the Trustee from time to time.

Joint Exercise of Powers Agreement. The term “Joint Exercise of Powers Agreement” means that certain Joint Exercise of Powers Agreement, dated as of April 1, 2015, by and between the District and Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, a community facilities district duly organized and validly existing pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq.* of the California Government Code, as amended from time to time.

Letter of Representations. The term “Letter of Representations” means the letter of the Authority and the Trustee delivered to and accepted by the Depository on or prior to delivery of the 2015B Bonds as book-entry bonds setting forth the basis on which the Depository serves as depository for such book-entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the Authority and the Trustee delivered to and accepted by the Depository.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee at 120 South San Pedro Street, Suite 410, Los Angeles, California 90012, Attention: Corporate Trust Division, Facsimile: (213) 972-5694, Email: timothy.miller@unionbank.com, with a copy to AccountAdministration-CorporateTrust@unionbank.com, or at such other or additional offices as may be specified in writing by the Trustee to the Authority, except that with respect to presentation of 2015B Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2015B Bonds, means (subject to the provisions of the Indenture) all 2015B Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) 2015B Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2015B Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture, including 2015B Bonds (or portions thereof) described in the Indenture; and (iii) 2015B Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2015B Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2015B Bond Owner. The terms “Owner” or “2015B Bond Owner,” whenever used in the Indenture with respect to a 2015B Bond, mean the person in whose name the ownership of such 2015B Bond is registered on the Registration Books.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

Permitted Investments. The term “Permitted Investments” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the District’s funds, as determined by the District: (i) Federal Securities; and (ii) for all purposes other than defeasance investments in refunding escrow accounts: (1) obligations of any of the following federal agencies, which obligations represent full faith and credit of the United States of America: Export Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by the applicable Rating Agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee and its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P

and “P-1” by Moody’s and mature no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody’s, or any successor thereto; (7) any Investment Agreement; (8) the Local Agency Investment Fund of the State; and (9) any other investment permitted by law.

Principal Account. The term “Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

Rating. The term “Rating” means any currently effective rating on the 2015B Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means Moody’s, S&P and Fitch Ratings, Inc.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to the Indenture.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the 15th day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2015B Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any 2015B Bond (or portion thereof), the principal amount of such 2015B Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2015B Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2015B Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time will be such officers, respectively, with responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the fund by that name established pursuant to the Indenture.

S&P. The term “S&P” means Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Request of the Authority deliver to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the 2015B Bonds issued by the Authority on the date of issuance of the 2015B Bonds, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means MUFG Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

2015B Bonds. The term “2015B Bonds” means the Water and Wastewater Revenue Bonds, Series 2015B issued by the Authority and at any time Outstanding pursuant to the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value” which will be determined as of the end of each month, means that the value of any investments will be calculated as follows: (a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch and Morgan Stanley Smith Barney. (b) As to certificates of deposit and bankers’ acceptances, the face amount thereof, plus accrued interest. (c) As to any investment not specified above, the value thereof established by prior agreement between the Authority and the Trustee.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for therein, with respect to compliance with any provision of the Indenture will include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions therein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Accountant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Accountant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon a certificate or opinion of or representation by an officer of the Authority, unless such counsel or Accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority, or the same counsel or Accountant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Accountants may certify to different matters, respectively.

THE 2015B BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2015B Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Authority, the District and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2015B Bonds as

provided in the Indenture. The person in whose name any 2015B Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2015B Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2015B Bond to the extent of the sum or sums so paid.

2015B Bonds Mutilated, Lost, Destroyed or Stolen. If any 2015B Bond becomes mutilated, the Authority, at the expense of the Owner of said 2015B Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2015B Bond of like tenor, series and authorized denomination in exchange and substitution for the 2015B Bonds so mutilated, but only upon surrender to the Trustee of the 2015B Bond so mutilated. Every mutilated 2015B Bond so surrendered to the Trustee will be canceled by it and destroyed in accordance with the Indenture. If any 2015B Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2015B Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2015B Bond so lost, destroyed or stolen (or if any such 2015B Bond has matured or will be about to mature, instead of issuing a substitute 2015B Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2015B Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any 2015B Bond issued under the provisions of the Indenture in lieu of any 2015B Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the 2015B Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other 2015B Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2015B Bond for a 2015B Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2015B Bond upon receipt of indemnity satisfactory to the Trustee.

Book-Entry System.

(a) Election of Book-Entry System. Prior to the issuance of the 2015B Bonds, the Authority may provide that such 2015B Bonds will be initially issued as book-entry 2015B Bonds. If the Authority elects to deliver any 2015B Bonds in book-entry form, then the Authority will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2015B Bonds in an authorized denomination corresponding to that total principal amount of the 2015B Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2015B Bond will be registered in the 2015B Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2015B Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture. With respect to book-entry 2015B Bonds, the Authority and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry 2015B Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry 2015B Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2015B Bond Registration Books, of any notice with respect to book-entry 2015B Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry 2015B Bonds to be redeemed in the event that the Authority redeems the 2015B Bonds in part; or (iv) the payment by the Depository or any Participant or any other person of any amount of principal of, premium, if any, or interest on book-entry 2015B Bonds. The Authority and the Trustee may treat and consider the person in whose name each book-entry 2015B Bond is registered in the 2015B Bond Registration Books as the absolute Owner of such book-entry 2015B Bond for the purpose of payment of principal of, premium and interest on such 2015B Bond, for the purpose of giving notices of redemption and other matters with respect to such 2015B Bond, for the purpose of registering transfers with respect to such 2015B Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2015B Bonds only to or upon the order of the respective Owner, as shown in the 2015B Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal of, premium, if any, and interest on the 2015B Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2015B Bond Registration Books, will receive a 2015B Bond

evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2015B Bonds. Upon delivery by the Depository to the Authority and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry 2015B Bonds for the Depository's book-entry system, the Authority and the Trustee will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry 2015B Bonds other than the Owners, as shown on the 2015B Bond Registration Books. By executing a Letter of Representations, the Trustee will agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the Authority and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book-entry 2015B Bonds for the Depository's book-entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book-entry 2015B Bonds; or (ii) the Authority determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the 2015B Bonds or the Authority, then the Authority will discontinue the book-entry system with the Depository. If the Authority determines to replace the Depository with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate, fully registered 2015B Bond for each of the maturity dates of such book-entry 2015B Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the Authority fails to identify another qualified securities depository to replace the Depository, then the 2015B Bonds will no longer be restricted to being registered in such 2015B Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2015B Bonds designates, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2015B Bonds are held in book-entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2015B Bond and all notices with respect to such 2015B Bond will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2015B Bonds to Substitute Depository. (i) The 2015B Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2015B Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below ("Substitute Depository"); provided that any successor of DTC or Substitute Depository will be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) above, upon receipt of all Outstanding 2015B Bonds by the Trustee, together with a written request of the Authority to the Trustee designating the Substitute Depository, a single new 2015B Bond, which the Authority will prepare or cause to be prepared, will be issued for each maturity of 2015B Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the Authority. In the case of any transfer pursuant to clause (C) above, upon receipt of all Outstanding 2015B Bonds by the Trustee, together with a written request of the Authority to the Trustee, new 2015B Bonds, which the Authority will prepare or cause to be prepared, will be issued in such denominations and registered in the

names of such persons as are requested in such written request of the Authority, subject to the limitations of the Indenture, provided that the Trustee will not be required to deliver such new 2015B Bonds within a period of less than 60 days from the date of receipt of such written request from the Authority.

(iii) In the case of a partial redemption or an advance refunding of any 2015B Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2015B Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee will not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the outstanding principal amount of such 2015B Bonds will be controlling.

(iv) The Authority and the Trustee are entitled to treat the person in whose name any 2015B Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2015B Bonds. Neither the Authority nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2015B Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2015B Bonds.

ISSUANCE OF 2015B BONDS; APPLICATION OF PROCEEDS

Validity of 2015B Bonds. The validity of the authorization and issuance of the 2015B Bonds is not dependent on and will not be affected in any way by any proceedings taken by the Authority, the District or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the 2015B Bonds that the same are issued pursuant to the Constitution and laws of the State are conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

Acquisition Fund. There has been established with the District a special fund designated the "Acquisition Fund." The Trustee will transfer proceeds of the 2015B Bonds to the District for deposit in the Acquisition Fund in accordance with the Indenture. The moneys in the Acquisition Fund will be held by the District in trust and moneys therein will be applied to the payment of the costs of acquisition and construction of the Project and of expenses incidental thereto. Before any payment is made from the Acquisition Fund by the Trustee, the General Manager of the District will cause to be filed with the Trustee a Written Requisition of the District in the form set forth in the Installment Purchase Agreement.

Upon receipt of each such Written Requisition, the District will pay the amount set forth in such Written Requisition as directed by the terms thereof. The District need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When the Project has been constructed and acquired in accordance with the Installment Purchase Agreement, a statement of the District stating the fact and date of such acquisition, construction and acceptance and stating that all of such costs of acquisition and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved), will be delivered by the General Manager of the District to the Deputy General Manager. Upon the receipt of such statement, the District will transfer any remaining balance in the Acquisition Fund not needed for Acquisition Fund purposes (but less the amount of any such retention which amount is certified by the District) to the Subordinate Obligation Payment Fund.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Revenue Fund. The Authority, for good and valuable consideration in hand received, has irrevocably assigned and transferred to the Trustee without recourse, for the benefit of the Owners of

the 2015B Bonds as set forth in the Indenture, all of its rights, title, and interest in all Installment Payments payable by the District pursuant to the Installment Purchase Agreement, including all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the Installment Purchase Agreement, or otherwise to protect the interest of the Owners of the 2015B Bonds. Such assignment will be subject to and limited by the terms of the Indenture.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement. Such investments will be directed by the Authority pursuant to a Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the Authority, the Trustee will invest any such moneys in Permitted Investments described in clause (ii)(5) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except for interest or gain derived from the Permitted Investment described in clause (ii)(8) of the definition thereof, which will be retained in such Permitted Investment) will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it thereunder upon the Request of the Authority. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The Authority will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee's accounting system.

Rebate Fund.

(a) Establishment. The Trustee will establish a separate fund designated the "Rebate Fund" when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2015B Bonds will not be adversely affected, the Authority will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2015B Bonds will be governed by the Indenture and the Tax Certificate for the 2015B Bonds, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2015B Bonds will not be adversely affected, if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all

Requests of the Authority; and (ii) will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate; and (iii) may rely conclusively on the Authority's calculations and determinations and certifications relating to rebate matters; and (iv) will have no responsibility to independently make any calculations or determinations or to review the Authority's calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the Authority will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The Authority will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the written Request of the Authority, an amount will be deposited to the Rebate Fund by the Trustee from any Authority Revenues legally available for such purpose (as specified by the Authority in the aforesaid written Request), if and to the extent required so that the balance in the Rebate Fund will equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written Request of the Authority, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Revenue Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Request of the Authority, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2015B Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Authority will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the Authority), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2015B Bonds and the payments described in clause (a) above being made may be withdrawn by the Authority and utilized in any manner by the Authority.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture will survive the defeasance or payment in full of the 2015B Bonds.

Application of Funds and Accounts When No 2015B Bonds are Outstanding. On the date on which all 2015B Bonds are retired under the Indenture or provision made therefor pursuant to the Indenture and after payment of all amounts due the Trustee thereunder, all moneys then on deposit in any of the funds or accounts (other than the

Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the Authority for distribution in accordance with the Installment Purchase Agreement.

PARTICULAR COVENANTS

Punctual Payment. The Authority will punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2015B Bonds, in strict conformity with the terms of the 2015B Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Authority Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2015B Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the 2015B Bonds or the time of payment of any claims for interest by the purchase of such 2015B Bonds or by any other arrangement, and in case the maturity of any of the 2015B Bonds or the time of payment of any such claims for interest will be extended, such 2015B Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2015B Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture limits the right of the Authority to issue 2015B Bonds for the purpose of refunding any Outstanding 2015B Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2015B Bonds.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Authority Revenues and other assets pledged or assigned under the Indenture while any of the 2015B Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to the foregoing limitation, the Authority has expressly reserved the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Joint Exercise of Powers Agreement, and has reserved the right to issue other obligations for such purposes.

Power to Issue 2015B Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the 2015B Bonds and to enter into the Indenture and to pledge and assign the Authority Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2015B Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Authority Revenues and other assets and all the rights of the 2015B Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by it relating to the proceeds of 2015B Bonds, the Authority Revenues and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the District upon reasonable prior notice during business hours and under reasonable circumstances.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2015B Bonds will not be adversely affected for federal income tax purposes, the Authority has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2015B Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Authority will take no action or refrain from taking any action or make any use of the proceeds of the 2015B Bonds or of any other moneys or property which would cause the 2015B Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The Authority will make no use of the proceeds of the 2015B Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2015B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The Authority will make no use of the proceeds of the 2015B Bonds or take or omit to take any action that would cause the 2015B Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The Authority will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2015B Bonds pursuant to Section 103(a) of the Code;

(e) Hedge 2015B Bonds. The Authority will make no use of the proceeds of the 2015B Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2015B Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Authority takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2015B Bonds for federal income tax purposes; and

(f) Miscellaneous. The Authority will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the Authority in connection with the issuance of the 2015B Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing contained therein prevents the Authority from issuing revenue bonds other than the 2015B Bonds or to execute and deliver contracts payable on a parity with the 2015B Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Payments Under Installment Purchase Agreement. The Authority will promptly collect all Installment Payments due from the District pursuant to the Installment Purchase Agreement and, subject to the provisions of the Indenture, will enforce, and take all steps, actions and proceedings which the Authority or the Trustee determines to be reasonably necessary for the enforcement of all of the obligations of the District thereunder.

The Authority will not enter into any amendments to the Installment Purchase Agreement except as permitted therein. The Trustee will give written consent only if: (a) such amendment, modification or termination will not materially adversely affect the interests of the 2015B Bond Owners; or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the 2015B Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the 2015B Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2015B Bonds of the rights and benefits provided in the Indenture.

Eminent Domain. If all or any part of the Project is taken by eminent domain proceedings (or sold to a government entity threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner specified in the Installment Purchase Agreement.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the Authority will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the Authority by contract, or prescribed by any law of the United States of America, 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 later acquired by the Authority, respectively,

including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

EVENTS OF DEFAULT AND REMEDIES OF 2015B BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture: (a) Default by the Authority in the due and punctual payment of the principal of any 2015B Bonds when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise. (b) Default by the Authority in the due and punctual payment of any installment of interest on any 2015B Bonds when and as the same becomes due and payable. (c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2015B Bonds contained, if such default has continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the Authority by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2015B Bonds Outstanding; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the Authority within such 60 day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

The Authority files a petition or answer 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 a court of competent jurisdiction approves a petition filed with or without the consent of the Authority 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 assumes custody or control of the Authority or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2015B Bonds at the time Outstanding, will, in each case except an Event of Default specified in the Indenture, upon notice in writing to the Authority: (a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the Authority or any director, officer or employee of the Authority, and compel the Authority or any such director, officer or employee of the Authority to observe or perform its duties under applicable law and the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by it; (b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or (c) by suit in equity upon the happening of any default under the Indenture require the Authority and the directors, officers and employees of the Authority to account as the trustee of an express trust.

The Trustee and the Owners have no right to accelerate the principal of or interest on the 2015B Bonds. Nothing contained in the Indenture permits or requires the Trustee or the Authority to accelerate payments due under the Installment Purchase Agreement.

Application of Authority Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Authority Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) will be applied by the Trustee as follows and in the following order: (i) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2015B Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and (ii) To the payment of the principal of and interest then due on the 2015B Bonds (upon presentation of the 2015B Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, in the following order of priority: First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and Second: To the payment to the persons entitled thereto of the unpaid principal of any 2015B Bonds which have become due, whether at maturity or redemption, with interest on the overdue principal at the rate of 8% per annum, and, if the amount available is not sufficient to pay in full all the 2015B Bonds, together with such interest, then to the payment thereof ratably,

according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and Third: If there exists any remainder after the foregoing payments, such remainder will be paid to the Authority.

Trustee to Represent 2015B Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2015B Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2015B Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2015B Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2015B Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2015B Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2015B Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Authority Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2015B Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2015B Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2015B Bonds, subject to the provisions of the Indenture.

2015B Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2015B Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee thereunder, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2015B Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2015B Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Agreement, the Joint Exercise of Powers Agreement or any other applicable law with respect to such 2015B Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 25% in aggregate principal amount of the 2015B Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the 2015B Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are, in every case, conditions precedent to the exercise by any Owner of 2015B Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2015B Bonds have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2015B Bonds, or to enforce any right under the 2015B Bonds, the Indenture, the Installment Purchase Agreement, the Joint Exercise of Powers Agreement or other applicable law with respect to the 2015B Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2015B Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the Authority. Nothing in the Indenture or in the 2015B Bonds affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the 2015B Bonds to the respective Owners of the 2015B Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Authority Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2015B Bonds.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the 2015B Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2015B Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. (a) The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), 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 prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2015B Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the 2015B Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2015B Bond Owner (on behalf of himself and all other 2015B Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority will execute and deliver

any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts thereunder to each rating agency which is then rating the 2015B Bonds and to the 2015B Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it will be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank will be eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the 2015B Bonds are statements of the Authority, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the 2015B Bonds, the Installment Purchase Agreement, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the 2015B Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2015B Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2015B Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2015B Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2015B Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2015B Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or under the Installment Purchase Agreement or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture or under the Installment Purchase Agreement unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the Authority or the Owners

of not less than 25% of the 2015B Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the Authority or the District of any of the terms, conditions, covenants or agreements therein, or under the Installment Purchase Agreement, of any of the documents executed in connection with the 2015B Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee thereunder will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture.

(i) The Trustee has no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2015B Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and will not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, for purposes of the Indenture, an e-mail does not constitute a notice, request or other communication thereunder but rather the portable document format or similar attachment attached to such e-mail will constitute a notice, request or other communication thereunder; and provided further that the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee’s understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written

instruction. The Authority has agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The permissive right of the Trustee to do things enumerated in the Indenture are not construed as a duty and it is not answerable for other than its negligence or willful misconduct.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2015B Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2015B Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Authority, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the Authority, the District and any 2015B Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Authority will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The Authority will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust, under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the obligations of the Authority under the Indenture survive removal or resignation of the Trustee thereunder or the discharge of the 2015B Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted. (a) The Indenture and the rights and obligations of the Authority and of the Owners of the 2015B Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2015B Bonds then Outstanding, exclusive of 2015B Bonds disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2015B Bonds, or reduce the amount of

principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2015B Bond so affected; or (2) reduce the aforesaid percentage of 2015B Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Authority Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted therein, or deprive the Owners of the 2015B Bonds of the lien created by the Indenture on such Authority Revenues and other assets except as permitted therein, without the consent of the Owners of all of the 2015B Bonds then Outstanding. It is not necessary for the consent of the 2015B Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2015B Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the 2015B Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any 2015B Bond Owners, for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2015B Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority; (2) 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 Authority may deem necessary or desirable; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and (4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2015B Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2015B Bonds from federal income taxation and from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of 2015B Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of 2015B Bonds; Preparation of New 2015B Bonds. 2015B Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2015B Bonds Outstanding at the time of such execution and presentation of his or her 2015B Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such 2015B Bonds. If the Supplemental Indenture so provides, new 2015B Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any 2015B Bonds then Outstanding will be exchanged at the Office of

the Trustee, without cost to any 2015B Bond Owner, for 2015B Bonds then Outstanding, upon surrender for cancellation of such 2015B Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2015B Bonds. The provisions of the Indenture do not prevent any 2015B Bond Owner from accepting any amendment as to the particular 2015B Bonds held by him.

DEFEASANCE

Discharge of Indenture. The 2015B Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2015B Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all 2015B Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2015B Bonds then Outstanding.

If the Authority also pays or causes to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (as evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any 2015B Bonds have not been surrendered for payment, the Indenture and the pledge of Authority Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2015B Bonds not theretofore surrendered for such payment or redemption to the Authority.

Discharge of Liability on 2015B Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding 2015B Bonds (whether upon or prior to the maturity or the redemption date of such 2015B Bonds), provided that, if such Outstanding 2015B Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, then all liability of the Authority in respect of such 2015B Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any 2015B Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such 2015B Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2015B Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2015B Bonds and all unpaid interest thereon to maturity, except that, in the case of 2015B Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2015B Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Accountant filed with the Authority and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the

2015B Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2015B Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2015B Bonds; and (ii) the Authority has delivered to the Trustee an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that such 2015B Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Accountant's opinion referred to above).

Payment of 2015B Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2015B Bonds and remaining unclaimed for two (2) years after the principal of all of the 2015B Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2015B Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Trustee with respect to claims of Owners of 2015B Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee will at the written direction of the Authority (at the cost of the Authority) first mail to the Owners of 2015B Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2015B Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Authority Revenues. Notwithstanding anything in the Indenture or the 2015B Bonds, the Authority is not required to advance any moneys derived from any source other than the Authority Revenues and other moneys pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the 2015B Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

The 2015B Bonds are not a debt of the members of the Authority, the State or any of its political subdivisions (other than the Authority) and neither the members of the Authority, said State nor any of its political subdivisions (other than the Authority) is liable in the Indenture. The District has no liability or obligation in the Indenture except with respect to Installment Payments payable under the Installment Purchase Agreement.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Authority or the Trustee bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2015B Bond Owners. Nothing in the Indenture or in the 2015B Bonds expressed or implied is intended or will be construed to give to any person other than the Authority, the Trustee, the District and the Owners of the 2015B Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Authority, the Trustee, the District and the Owners of the 2015B Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of

any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2015B Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any 2015B Bonds, the Trustee will destroy such 2015B Bonds as may be allowed by law, and deliver a certificate of such destruction to the Authority.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2015B Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The Authority has declared that it would have entered into the Indenture and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2015B Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of 2015B Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2015B Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2015B Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2015B Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Authority if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The Ownership of 2015B Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2015B Bond will bind every future Owner of the same 2015B Bond and the Owner of every 2015B Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified 2015B Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2015B Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2015B Bonds which are known by the Trustee to be owned or held by or for the account of the Authority, or by any other obligor on the 2015B Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the 2015B Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2015B Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2015B Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the 2015B Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the Authority will certify to the Trustee those 2015B Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2015B Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2015B Bonds (or portions of 2015B Bonds in the case of registered 2015B Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2015B Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the 2015B Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the Authority or the District will be individually or personally liable for the payment of the principal of or premium or interest on the 2015B Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture relieves any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the Authority are liable for any defect or inaccuracy in the CUSIP number that appears on any 2015B Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2015B Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2015B Bondholders and that neither the Authority nor the Trustee are liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE IS GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Notice to Rating Agencies. The Trustee will provide any rating agency rating the 2015B Bonds with written notice of each amendment to the Indenture and a copy thereof at least 15 days in advance of its execution.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2015B Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

June 18, 2015

Eastern Municipal Water District Financing Authority
c/o Eastern Municipal Water District
2270 Trumble Road
P.O. Box 8300
Perris, California 92572-8300

Re: \$74,430,000 Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2015B

Members of the Board of Directors:

We have acted as Bond Counsel to the Eastern Municipal Water District Financing Authority (the "Authority") in connection with the issuance of \$74,430,000 aggregate principal amount of Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2015B (the "Bonds"). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of June 1, 2015 (the "Indenture"), by and between the Authority and MUFG Union Bank, N.A., as trustee (the "Trustee").

The Bonds are limited obligations of the Authority payable solely from payments (the "Installment Payments") to be made by the Eastern Municipal Water District (the "District") to the Authority pursuant to an Installment Purchase Agreement, dated as of June 1, 2015 (the "Installment Purchase Agreement"), by and between the District and the Authority, and from certain funds and accounts established under the Indenture.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California (the "State") now in force, and the Indenture and the Installment Purchase Agreement have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds, the Indenture and the Installment Purchase Agreement are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the District to make the Installment Payments from Net Revenues (as such term is defined in the Installment Purchase Agreement) is an enforceable obligation of the District and does not constitute 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, 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.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the District and the Authority and are subject to the condition that the District and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their issuance. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Installment Purchase Agreement and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the District and the Underwriters believe to be reliable, but neither the Authority, the District nor the Underwriters takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2015B Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2015B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2015B Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2015B Bonds. The 2015B 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 annual maturity of the 2015B Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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 System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 transfers 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2015B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015B 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 2015B 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 2015B Bonds, except in the event that use of the book-entry system for the 2015B Bonds is discontinued.

To facilitate subsequent transfers, all 2015B 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 2015B 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 2015B Bonds; DTC's records reflect only the identity of the Direct

Participants to whose accounts such 2015B Bonds 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.

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. Beneficial Owners of 2015B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2015B Bond documents. For example, Beneficial Owners of 2015B Bonds may wish to ascertain that the nominee holding the 2015B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015B Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2015B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 2015B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2015B 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 upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. 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, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or 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.

A 2015B Bond Owner shall give notice to elect to have its 2015B Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2015B Bonds by causing the Direct Participant to transfer the Participant's interest in the 2015B Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2015B Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2015B Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2015B Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the 2015B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority 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 to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2015B BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2015B BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2015B Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Eastern Municipal Water District (the “District”) in connection with the issuance of the \$74,430,000 Eastern Municipal Water District Financing Authority Refunding Water and Wastewater Revenue Bonds, Series 2015B (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2015 (the “Indenture”), by and between MUFG Union Bank, N.A., as trustee, and the Eastern Municipal Water District Financing Authority. The District covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

Annual Report. The term “Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated June 3, 2015 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The District shall provide not later than 210 days following the end of its Fiscal Year (commencing with Fiscal Year 2015) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which 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 Certificate.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Comprehensive Annual Financial Report of the District for the prior Fiscal Year, which shall include audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the Comprehensive Annual Financial Report, updated versions of financial information and operating data relating to the District of the type contained in the Official Statement, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

(i) Appendix A under the caption “THE DISTRICT—Debt Structure of the District—Table 4;”

(ii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Table 6;”

(iii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production—Tables 7, 8 and 9;”

(iv) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Deliveries—Table 10;”

(v) Appendix A under the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities—Table 11;”

(vi) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues;”

(vii) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Non Operating Revenues;” and

(viii) Appendix A under the caption “HISTORICAL OPERATING RESULTS—Table 19.” Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after 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. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: 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) Pursuant to the provisions of this Section 5, 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:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond Holders;
3. optional, unscheduled or contingent Bond redemptions;
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 the District or the sale of all or substantially all of the assets of the District, 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; and
7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

7. Termination of Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% in aggregate principal amount of the Bonds 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 Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: June 18, 2015

EASTERN MUNICIPAL WATER DISTRICT

By: _____
Its: General Manager

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