NEW ISSUE — BOOK-ENTRY ONLY

RATINGS: S&P – "AAA/A-1"
Fitch – "AAA/F1"
(See "RATINGS" herein)

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the federal alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS."

$43,775,000
WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
ADJUSTABLE RATE WATER REVENUE REFUNDING BONDS
SERIES OF 2012A

Dated: Date of Delivery **Due:** October 1, 2042

The Western Municipal Water District Facilities Authority (the "Authority") is issuing its Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A in the initial aggregate principal amount of $43,775,000 (the "Bonds") pursuant to an Indenture of Trust dated as of June 1, 2012 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee") for the purpose of currently refunding its Adjustable Rate Water Revenue Refunding Bonds Series of 2009A (the "2009A Bonds").

The Bonds are special limited obligations of the Authority payable solely from certain installment payments (the "Installment Payments") paid by the District pursuant to the Installment Purchase Agreement (Series 2012A), dated as of June 1, 2012 (the "Installment Purchase Agreement"), by and between the Authority and the District and the amounts held in certain funds and accounts established under the Indenture as described herein.

The Installment Payments are payable from Net Revenues of the water delivery and wastewater collection and treatment system owned and operated by the District (the "System"). Net Revenues consist primarily of all income and revenue received by the District remaining after payment of Maintenance and Operation Costs. The lien on Net Revenues securing Installment Payments is on a parity with the lien on Net Revenues securing other obligations of the District in the outstanding principal amount of $103,725,000. In addition, the District has entered into a Swap Agreement and a Reimbursement Agreement with respect to the Bonds and the repayment obligations thereunder are also Parity Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Obligations." The District may incur additional obligations payable on a parity basis from and secured by a lien on Net Revenues upon satisfying the requirements provided in the Master Installment Purchase Agreement dated as of May 1, 2009, between the Authority and the District (the "Master Agreement"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being initially issued as Weekly Rate Bonds. The initial Weekly Rate established by the Underwriter for the Bonds will apply to the period commencing on June 28, 2012, through and including July 4, 2012. Thereafter, the Bonds will bear interest at a Weekly Rate until such date, if any, on which the interest on the Bonds is converted to a Daily Rate, a Short-Term Rate, a Long-Term Rate or a Fixed Rate. The Bonds will be subject to optional redemption and mandatory redemption prior to maturity, as described herein. See "THE BONDS – Redemption." While bearing interest at a Daily Rate or a Weekly Rate, the Bonds may be tendered by their owners for purchase and are subject to mandatory tender for purchase in the manner described herein. See "THE BONDS – Tender of Bonds." So long as the Bonds bear interest at the Weekly Rate (or other Interest Rate Periods other than the Fixed Rate), the Bonds will be available to purchasers in denominations of $100,000 and integral multiples of $5,000 in excess thereof.

The payment of principal of and interest on the Bonds and the payment of the purchase price of the Bonds will be supported by an irrevocable direct pay Letter of Credit (the "Initial Letter of Credit") issued by Union Bank, N.A. (the "Credit Facility Provider"). The Initial Letter of Credit is scheduled to expire on June 26, 2015.

The Letter of Credit may be extended and, under certain circumstances, may be replaced with a substitute letter of credit. See "THE LETTER OF CREDIT AND THE CREDIT FACILITY." Unless the Letter of Credit is extended or replaced as described herein, the Bonds are subject to mandatory purchase on or prior to the date of termination of the Letter of Credit, as described herein. See "THE BONDS – Tender of Bonds."

The Bonds will be delivered in fully registered form only, and in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificated Bonds representing their interest in the Bonds purchased. Payments of principal, purchase price and interest on the Bonds will be payable by the Trustee to DTC which is obligated in turn to remit such principal, purchase price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein. See "THE BONDS – Revision of Book Entry Only System; Replacement Bonds" and Appendix E – "DTC AND THE BOOK ENTRY ONLY SYSTEM" herein.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED IN THE INDENTURE (EXCLUSIVE OF THE REBATE FUND). NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR ITS MEMBERS IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS; AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED IN THE INDENTURE (EXCLUSIVE OF THE REBATE FUND) IS PLEDGED TO PAY THE PRINCIPAL OF REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL 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, NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS, TO BE MADE PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued by the Authority, and accepted by the Underwriter, subject to the approval of Best Best & Krieger LLP, Riverside, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, for the Authority and the District by Best Best & Krieger LLP, Riverside, California, and for the Credit Facility Provider by Chapman and Cutler LLP. It is anticipated that the Bonds in book-entry form will be available for delivery in New York, New York on June 28, 2012.

BofA Merrill Lynch

Dated: June 27, 2012

MATURITY SCHEDULE

WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY

Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A

$43,775,000 Variable Rate Term Bond due October 1, 2042, CUSIP*: 95874TBR9.

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WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
RIVERSIDE COUNTY, CALIFORNIA

BOARD OF DIRECTORS
OF THE DISTRICT AND THE AUTHORITY

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Rod LeMond, Assistant General Manager/Chief Financial Officer
Joseph J. Bernosky, Director of Engineering
Kevin C. Mascaro, Director of Finance
Jack S. Safely, Director of Water Resources

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel
Best Best & Krieger LLP
Riverside, California

General Counsel to the District
Best Best & Krieger LLP
Riverside, California

Independent Auditors
Rogers, Anderson, Malody & Scott, LLP
San Bernardino, California

Financial Advisor to the District
Fieldman, Rolapp & Associates
Irvine, California

Trustee
U.S. Bank National Association
Los Angeles, California

This Official Statement not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the Authority and the District and other sources that are believed by the Authority and the District to be reliable. The Broker-Dealer has provided the following sentence for inclusion in this Official Statement. The Broker-Dealer has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Broker-Dealer does not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the Authority or the Broker-Dealer.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, projections, 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 facts.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Authority since the date hereof. This Official Statement is submitted with respect to the remarketing of the 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 the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the District and the Authority.

In connection with the reoffering of the Bonds, the Broker-Dealer may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Broker-Dealer may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the initial public reoffering price of par and such public offering prices may be changed from time to time by the Broker-Dealer.

The District maintains a website, however, the information presented on that website is not part of this Official Statement and prospective investors should not rely on any information presented on the District's website in making an investment decision to purchase the Bonds.

TABLE OF CONTENTS

INTRODUCTION 1
General 1
The Authority 2
The District 2
The Bonds 2
Security and Sources of Payment for the Bonds 3
The 2008 Swap 4
Rate Stabilization Fund 5
Issuance of Parity Obligations by the District 5
Credit Facility for Bonds 5
Forward-Looking Statements 5
Tax Matters 5
Continuing Disclosure 6
Remarketing of Bonds 6
Miscellaneous 6
REFUNDING PLAN 7
Purpose 7
Estimated Sources and Uses of Funds 7
THE BONDS 8
General Description 8
Credit Facility Provider Deemed Holder of Bonds 9
Determination of Interest Rates 9
Term Loans 11
Conversion 11
Transfer and Exchange of Bonds; Persons Treated as Owners 12
Redemption 12
Tender of Bonds 15
Revision of Book-Entry System; Replacement Bonds 19
SCHEDULED DEBT SERVICE ON THE BONDS 20
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS 21
General 21
The Master Installment Purchase Agreement 21
Rate Stabilization Fund 25
The Installment Purchase Agreement 26
Outstanding Parity Obligations 26
No Reserve Fund 27
Substitute Credit Facility 27
THE LETTER OF CREDIT AND THE CREDIT FACILITY 28
Union Bank, N.A 28
Initial Letter of Credit 28
Reimbursement Agreement 29
Remedies 31
THE AUTHORITY 32
WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY 32
General 32
Population and Land Area 33
Board of Directors 33
Directors 33
Officers 35
Management Staff 35
Water System 36
Sources of Water and Water Availability 37
Water Service Customer Base 39
Wastewater System 46
Historical Operating Results 50
Projected Operating Results 51
Budgetary Process 54
Capital Improvement Plan 54
Property Tax Revenues 55
Proposition 1A and ERAF 57
Direct and Overlapping Bonded Debt 59
Investment Policy 60
Defined Benefit Pension Plan 60
Other Post-Employment Benefits 61
RISK FACTORS 63
Proposition 218 and Future Rate Increases 63
Limited Obligations and Limited Recourse on Default 63
Increased Operation and Maintenance Costs 63
Statutory and Regulatory Impact 63
Property Tax Collections 64
Shortage of Imported Water 64
Factors Related to Swaps 64
Seismic Considerations 65
Security of the System 65
Water System Demand and Possible Increase in Unpaid Water Bills 65
System Expenses 65
Effect of Bankruptcy 65
Loss of Tax Exemption 66
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS 66
Article XIIIA 66
Article XIIIB 66
Articles XIIIC and XIIID 67
Proposition lA 69
THE REMARKETING AGENT 69
The Remarketing Agent is Paid by the District 70
The Remarketing Agent Routinely Purchases Bonds for its Own Account 70
Bonds May be Offered at Different Prices in the Secondary Market on any Date 70
The Ability to Sell the Bonds other than through Tender Process may be Limited 70
CERTAIN LEGAL MATTERS 71
FINANCIAL STATEMENTS 71
TAX MATTERS 71
LITIGATION 72
CONTINUING DISCLOSURE 72
UNDERWRITING 73
RATINGS 73
MISCELLANEOUS 73

APPENDIX A - INFORMATION REGARDING THE COUNTY OF RIVERSIDE GENERAL INFORMATION A-1
APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS B-1
APPENDIX C - AUDITED FINANCIAL STATEMENTS C-1
APPENDIX D - FORM OF BOND COUNSEL OPINION D-1
APPENDIX E - DTC AND THE BOOK ENTRY ONLY SYSTEM E-1
APPENDIX F - CONTINUING DISCLOSURE AGREEMENT F-1

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$43,775,000
WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY
ADJUSTABLE RATE WATER REVENUE REFUNDING BONDS
SERIES OF 2012A

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Bonds being issued and a brief description of the Official Statement. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State") and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Master Agreement, the Indenture and the Installment Purchase Agreement. See Appendix B – "Summary of Principal Legal Documents –Definitions" attached hereto.

General

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the issuance by the Western Municipal Water District Facilities Authority (the "Authority") of its $43,775,000 aggregate principal amount Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A (the "Bonds") to be issued pursuant to an Indenture of Trust, dated as of June 1, 2012 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

Payment of the principal of and interest on the Bonds, and the Purchase Price of each of the Bonds tendered for purchase and not timely remarked, are supported by an irrevocable direct pay letter of credit (the "Initial Letter of Credit") issued by Union Bank, N.A. (the "Credit Facility Provider"). See "THE LETTER OF CREDIT AND THE CREDIT FACILITY" herein. **Neither the Authority nor the District is obligated to pay the Purchase Price of Bonds under any circumstances; and investors should assume that the Credit Facility is the only liquidity supporting the Bonds.**

The Bonds are being issued to currently refund the Authority's Adjustable Rate Water Revenue Refunding Bonds, Series of 2009A in the outstanding principal amount of $43,775,000.

The Bonds are being issued by the Authority in accordance with the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (commencing with Section 6584) (the "JPA Law"). The Bonds are special, limited obligations of the Authority payable solely from certain installment payments (the "Installment Payments") paid by the District pursuant to the Installment Purchase Agreement (Series 2012A), dated as of June 1, 2012 (the "Installment Purchase Agreement"), by and between the Authority and the District and the amounts held in certain funds and accounts established under the Indenture. The Installment Payments are payable from Net Revenues collected for the service (the "Service") provided by the water treatment and delivery system, and the wastewater collection and treatment system owned and operated by the District (the "System"). Net Revenues consist of revenues received by the District from the System remaining after payment of Maintenance and Operation Costs. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Payment of the principal of and interest on the Bonds, and the Purchase Price of each of the Bonds tendered for purchase and not timely remarketed, will be payable from funds provided under the Credit Facility, initially.

Under the terms of the Master Installment Purchase Agreement, dated as of May 1, 2009 (the "Master Agreement"), the District has incurred and may incur additional obligations payable from and secured by Net Revenues upon satisfying the requirements provided in the Master Agreement, all as described herein. In addition to the Installment Payments, the District has incurred the following obligations that have a parity lien on Net Revenues: Installment Payment Agreement (Series 2009B) dated as of May 1, 2009, by and between the

District and the Authority (the "2009B Installment Payment Agreement"), the Installment Payment Agreement (Series 2010A) dated as of October 1, 2010 (the "2010A Installment Payment Agreement"), an ISDA Master Agreement, Schedule and Credit Support Annex dated November 4, 2008 as amended by an amended and restated Confirmation dated June 26, 2012 (as amended, the "2008 Swap"), each by and between the District and Merrill Lynch Capital Services, Inc. (the "2008 Swap Provider"), and the Reimbursement Agreement (as defined herein). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Obligations" herein. These obligations together with other obligations issued under and in accordance with the Master Agreement on a parity thereto are referred to herein as "Parity Obligations." See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Obligations" herein.

The Authority

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of October 2, 2002 (the "Joint Powers Agreement"), by and between the District and the Jurupa Community Services District. See "THE AUTHORITY" herein.

The District

The District is a municipal water district and serves a population of approximately 894,000 and an area of approximately 527 square miles of land located in the western part of Riverside County. The District serves water directly to more than 23,000 retail customers located in the areas of El Sobrante, Eagle Valley, Temescal Creek, Woodcrest, Lake Matthews, March Air Reserve Base, Rainbow Canyon, and portions of the Cities of Riverside and Murrieta. The District also serves eight wholesale customers with Colorado River and State Water Project water. In addition to its retail water service, the District provides retail wastewater service to approximately 8,000 customers. Approximately 98% of the District's operating revenues for Fiscal Year 2010-11 were generated from water sales, water service, and wastewater service.

The water system encompasses almost 621 miles of pipeline with pipes ranging from 4 to 60 inches in diameter. The District operates and maintains more than 120 water, wastewater, and recycled water pumps with a total connected horsepower exceeding 18,000 horsepower. The water system includes 36 water storage tanks with a capacity of approximately 94 million gallons. The District owns 10 wells for pumping groundwater; five in Murrieta, and five in the Arlington Basin. In November, 2008, the District joined the Chino Basin Desalter Authority ("CDA"). Working in partnership with two CDA partners, the District is increasing water supplies from the Chino Basin by expanding the capacity of the Chino II Desalter from 10 million gallons per day ("MGD") to 20 MGD.

The District also owns and operates the Western Water Recycling Facility and is one of five members of the Western Riverside County Regional Wastewater Authority, a joint powers authority that owns an eight million gallon per day wastewater treatment facility.

The Bonds

The Bonds may bear interest in a Daily, Weekly, Short-Term, Long-Term or Fixed Rate Period, as elected by the Authority as described below. The Bonds will initially bear interest at a Weekly Rate Period. While the Bonds bear interest at a Weekly Rate they will be sold in denominations of $100,000 and integral multiples of $5,000. The initial interest rate will be established by the Underwriter and will be in effect from the delivery date of the Bonds until interest rates on the Bonds are reset and thereafter at the Weekly Rate determined on each Wednesday by the Remarketing Agent, to be effective from and including each Thursday to and including the following Wednesday. The maximum interest rate on the Bonds that are not Credit Facility Provider Bonds is the least of (i) the maximum rate permitted by law, (ii) 12% per annum, and (iii) the maximum rate utilized to determine the amount available under any Credit Facility then in effect. The maximum interest rate on Bonds that are Credit Facility Provider Bonds is the lesser of (x) the maximum rate permitted by law and (y) 25% per annum. Interest payable on each Interest Payment Date shall be the interest accrued and unpaid to and including the day preceding such Interest Payment Date. See "THE BONDS," for a more detailed description of the terms and provisions pertaining to the Bonds.

Security and Sources of Payment for the Bonds

General. The Bonds are special, limited obligations of the Authority, payable and secured solely from Installment Payments payable under the Installment Purchase Agreement and are further secured by the amounts in the funds and accounts established by the applicable Indenture (except amounts deposited in the Rebate Fund), including all investment earnings on any moneys held in such funds or accounts (collectively, the "Trust Estate"). The Installment Payments due under the Installment Purchase Agreement, together with the other amounts constituting the Trust Estate, are scheduled to be sufficient to pay the principal of, premium, if any, and interest on Bonds as such amounts become due. A default in the payment of the Installment Payments due under the Installment Purchase Agreement may result in insufficient amounts with which to pay the principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (EXCLUSIVE OF THE REBATE FUND). NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR ITS MEMBERS IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS; AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (EXCLUSIVE OF THE REBATE FUND) IS PLEDGED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY OR INTEREST ON THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The Master Installment Purchase Agreement. The Master Agreement provides that the District will establish and declare the conditions and terms upon which obligations will be incurred and secured. The Parity Obligations, which include the Installment Purchase Agreement, the Series 2009B Installment Purchase Agreement, the 2010A and 2010B Installment Purchase Agreement, the 2008 Swap and the District's obligations under the Credit Facility are entered into under and secured by the terms of the Master Agreement. Under the Master Agreement, the District irrevocably grants and pledges the Net Revenues first, to secure Parity Obligations and second, to secure obligations which are subordinate to the payment of principal of, premium, if any, and interest on the Parity Obligations (the "Subordinate Obligations" and together with the "Parity Obligations," the "Obligations"). Such lien and pledge on Net Revenues to secure Parity Obligations under the Master Agreement constitutes a first lien on Net Revenues and such pledge and lien on Net Revenues to secure Subordinate Obligations under the Master Agreement constitute a second lien on Net Revenues under the Master Agreement. Parity Obligations secured under the Master Agreement are payable on a parity with Installment Payments.

The District covenants under the Master Agreement to fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Adjusted Annual Net Revenues for such Fiscal Year in an amount not less than Coverage Requirement for such Fiscal Year. "Coverage Requirement" means, for any Fiscal Year or twelve calendar month period, (i) an amount of Adjusted Annual Net Revenues which equals at least 110% of the Adjusted Annual Debt Service for such period and (ii) an amount of Net Revenues which equals 100% of all Payments payable in such period, all as further provided in the Master Agreement. For purposes of calculating the Coverage Requirement, the District may include in Net Revenues certain moneys released from the Rate Stabilization Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Installment Purchase Agreement – *Rate Covenant,*" and "- *Collection of Rates and Charges*;" and "– Rate Stabilization Fund," and Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

In addition to the Installment Purchase Agreement executed in connection with the Bonds, the District may incur Parity Obligations upon satisfying the conditions provided in the Master Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Installment Purchase Agreement – *Additional Parity Obligations*" herein.

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL 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. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS TO BE MADE PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT.

The Installment Purchase Agreement. The Installment Purchase Agreement is a Parity Obligation executed and delivered under the provisions of the Master Agreement. Concurrently with the execution and delivery of each subsequent Installment Purchase Agreement following the issuance of the Bonds, the District will certify that it has satisfied the conditions required under the Master Agreement. In consideration for the Authority's agreement to provide financing or refinancing pursuant to the provisions of the particular Installment Purchase Agreement, the District will, subject to any rights of prepayment, pay to the Authority, solely from Net Revenues and from no other sources, the Installment Payments as provided in the Installment Purchase Agreement. The obligation of the District to make the Installment Payments is absolute and unconditional and until such time as the Installment Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the Master Agreement), the District will not discontinue or suspend any Installment Payments required to be paid by it under the Installment Purchase Agreement whether or not the 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. The Installment Payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

No Reserve Fund. No Reserve Fund has been established for the Bonds.

The 2008 Swap

The 2008 Swap was entered into on November 4, 2008 and scheduled payments thereunder began on July 1, 2009. Under the 2008 Swap, the District makes fixed payments to the 2008 Swap Provider based on a fixed rate and receives floating payments from the 2008 Swap Provider based on a percentage of the London Interbank Offered Rate, in each case on a notional amount equal to the principal amount of the 2009 Series A Bonds, as such principal amount amortizes. In connection with the issuance of the Bonds the District is entering into an amended and restated Confirmation by and between the District and the 2008 Swap Provider for the purpose of, among other things, relating the 2008 Swap to the Bonds by extending the maturity date of the 2008 Swap from October 1, 2032 to October 1, 2042. The amended and restated Confirmation will also lower the fixed rate payable to the District (2.960% to 2.715%), and add a guaranty of Merrill Lynch Derivative Products AG ("MLDP") with respect to the 2008 Swap Provider's obligation to make payments to the District upon an early termination of the 2008 Swap Payments. The purpose of the 2008 Swap is generally to convert the District's variable rate obligation with respect to the Bonds to a fixed rate obligation. Under the 2008 Swap, the scheduled payments are secured by a pledge of and lien on Net Revenues of the District on a parity with the pledge of Net Revenues to secure the Installment Payments to be made by the District with respect to the Bonds. Termination payments with respect to the 2008 Swap are secured on a basis directly subordinate to Parity Payments, including the Installment Payments and the scheduled payments on the 2008 Swap; provided, however, in certain circumstances termination payments may be made prior to Parity Payments. See "SECURITY AND SOURCES OF REPAYMENT FOR THE BOND - Master Installment Purchase Agreement – *Application of Revenues*."

Under certain circumstances, the 2008 Swap is subject to termination prior to its scheduled termination date and prior to the maturity of the Bonds. In the event of an early termination of the 2008 Swap, there can be no assurance that (i) the District will receive any termination payment payable to it by the 2008 Swap Provider or MLDP, (ii) the District will have sufficient amounts to pay a termination payment payable by it to the 2008 Swap Provider, and (iii) the District will be able to obtain a replacement swap agreement with comparable terms. Payments due upon early termination may be substantial and may, in certain circumstances, adversely affect the District's ability to make Installment Payments. As of June 12, 2012, the mark-to-market termination value of the 2008 Swap was approximately $7.32 million in favor of the 2008 Swap Provider.

The agreement by each of the 2008 Swap Provider and MLDP to pay certain amounts to the District pursuant to the 2008 Swap does not alter or affect the District's obligations to pay the Installment Payments securing the payment of the principal of, interest on, and redemption price of, any of the Bonds. Neither the 2008 Swap Provider nor MLDP has any obligation to make any payments with respect to the principal of, interest on, or redemption price of, the Bonds. Neither the holders of the Bonds nor any other person other than the District shall have any rights under the 2008 Swap or against the 2008 Swap Provider or MLDP. See "RISK FACTORS – Factors Related to Swaps."

Rate Stabilization Fund

As provided in the Master Agreement, the District has created a Rate Stabilization Fund into which the District deposited $20,000,000 in May 2009. The balance in the Rate Stabilization Fund is currently $20,000,000. Amounts in the Rate Stabilization Fund may be deposited to the Revenue Fund for the purpose of making of Installment Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Stabilization Fund."

Issuance of Parity Obligations by the District

Parity Obligations to be executed and delivered under the Master Agreement will be secured on a parity with each Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Credit Facility for Bonds

The scheduled payment of principal of and interest on the Bonds when due and the Purchase Price of Bonds that have been tendered as described herein and not remarketed will initially be supported by a letter of credit to be issued by Union Bank, N.A. (the "Credit Facility"). See "THE LETTER OF CREDIT AND THE CREDIT FACILITY."

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. 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. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The District is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Tax Matters

For a description of the tax status of interest on the Bonds, see "TAX MATTERS" herein and see the complete copies of Bond Counsel opinion set forth in Appendix D herein.

Continuing Disclosure

In connection with the issuance of the Bonds the District and the Authority entered into a continuing disclosure agreement to provide ongoing disclosure of financial and operating data. See "Continuing Disclosure" herein.

Remarketing of Bonds

The remarketing agent for the Bonds is Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Remarketing Agent") pursuant to a Remarketing Agreement dated as of June 1, 2012. The principal office of the Remarketing Agent is One Bryant Park, 9th Floor, New York, New York 10036. The Remarketing Agent may resign or be removed as remarketing agent by the District or the Credit Facility Provider in accordance with the terms of the Remarketing Agreement.

Miscellaneous

The issuance of the Bonds is subject to the approval as to their legality by Bond Counsel and certain other conditions.

The descriptions herein of the Indenture, the Master Agreement and the Installment Purchase Agreement and any other agreements relating to the Bonds are qualified in their entirety by reference to such documents. Copies of the documents are on file and available for inspection at the corporate trust office of the Trustee at U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, California 90071.

REFUNDING PLAN

Purpose

In May 2009, the Authority issued the 2009A Bonds in the initial aggregate principal amount of $48,000,000. The 2009A Bonds were issued to refund on a current basis bond anticipation notes issued by the District in 2008 (the "2008 Notes"). The 2008 Notes refunded on a current basis the Authority's Adjustable Rate Water Revenue Bonds Series of 2002A the proceeds of which were used to finance certain capital improvements to the District's Water System and prepay certain loans to the District.

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the Bonds and amounts available with the 2009A Bonds are expected to be applied as follows:

Sources:	
Bond Par Amount	$43,775,000.00
District Contribution for Costs of Issuance	348,750.00
District Payment of Interest	4,843.95
Total	$44,128,593.95
Uses:	
Redemption Fund for 2009A Bonds	$43,779,843.95
Costs of Issuance	348,750.00
Total	$44,128,593.95

The District will pay all closing costs, including the Underwriter's fee, from funds of the District, and Bond proceeds will not be deposited into the costs of issuance fund. The District will deposit amounts payable as accrued interest on the 2009A Bonds from its funds and not from Bond proceeds. Additionally, the reserve fund relating to the 2009A Bonds will be transferred to the reserve fund for the 2009B Bonds, so that the amount on deposit in the reserve fund for the 2009B Bonds equals the Reserve Requirement thereto relating.

THE BONDS

General Description

The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), and particularly the statutory provisions relating to the JPA Law. The Bonds are in fully registered form without coupons and are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). See "– Revision of Book Entry Only System; Replacement Bonds" and Appendix E – "DTC and the Book-Entry Only System" herein.

The Bonds are being issued under the Indenture in the amount of $43,775,000 on June 28, 2012. From June 28, 2012 until July 4, 2012 the Bonds will bear interest from their date of issuance at the applicable rate determined by the Remarketing Agent and thereafter, will bear interest at Weekly Rates but may be converted at the option of the Authority, subject to certain restrictions, to bonds that bear interest at different rates, including a Daily Rate, a Short-Term Rate, a Long-Term Rate or a Fixed Rate. In no event, however, will the interest rate on any Bonds exceed the Maximum Rate (as defined below).

While bearing interest at Weekly Rates or Daily Rates, the Bonds will be subject to tender for purchase at the option of the Owners thereof at a Purchase Price equal to the principal amount thereof plus any accrued and unpaid interest thereon to the Purchase Date (but only if remarketing proceeds and/or proceeds from a drawing on a Credit Facility are available for such purpose). The Bonds (except Bonds bearing interest at a Fixed Rate) are also subject to mandatory tender for purchase. All Bonds are subject to optional redemption, special mandatory redemption and scheduled mandatory sinking fund redemption. Credit Facility Provider Bonds are subject to special mandatory redemption as provided in the Reimbursement Agreement.

Interest on the Bonds will be payable in arrears on each Interest Payment Date, commencing on the first Interest Payment Date after the Closing Date. While the Bonds are subject to a Weekly Rate, the Interest Payment Date will be the first Business Day of each calendar month. The amount of interest payable with respect to the Bonds on any payment date will be computed as follows: (A) during a Daily Interest Period, Weekly Interest Period or Short-Term Interest Period, on the basis of a 365- or 366-day year, as the case may be, for the number of days actually elapsed, and (B) during a Long-Term Rate Period or Fixed Rate period, on the basis of a 360-day year of twelve 30-day months. Notwithstanding the foregoing, the amount of interest payable with respect to Credit Facility Provider Bonds shall be calculated as provided in the Reimbursement Agreement.

The Bonds may bear interest at any time in any Interest Rate Period, provided that all Bonds must bear interest in the same Interest Rate Period at any given time.

All determinations of interest rates, amounts of interest payable on the Bonds and Interest Rate Periods pursuant to the Indenture will be conclusive and binding upon the Authority, the Trustee, the Paying Agent, the Credit Facility Provider and the Owners of the Bonds to which such rates are applicable. The Authority, the Trustee, the Paying Agent, the Credit Facility Provider and the Remarketing Agent will not be liable to any Owner for failure to give any notice specified in the Indenture or for the failure of any Owner to receive any such notice.

The Bonds will be issued in authorized denominations of $100,000 and integral multiples of $5,000 in excess thereof (except that while they bear interest at a Fixed Rate the Bonds will be denominations of $5,000 and integral multiples thereof). The authorized denominations of the Bonds are hereinafter called "Authorized Denominations."

The Bonds initially have been issued in a book entry system, registered to DTC, as registered owner of the Bonds, and held in the custody of DTC, pursuant to DTC's book entry-only system. Purchasers of beneficial interests in the Bonds will be made in book-entry form, without certificates. If the book entry system is discontinued for the Bonds, the Authority will take the actions necessary to provide for the issuance of Bond certificates to the Owners of such Bonds.

So long as the Bonds are held by DTC or its nominee, Cede & Co., in book-entry only form, the Trustee will recognize and treat DTC or its nominee, Cede & Co., as the Holder of the Bonds for all purposes under the Indenture. See Appendix E – "DTC AND THE BOOK ENTRY ONLY SYSTEM." Each Beneficial Owner is responsible for observing the procedures of DTC, the Direct Participant, any Indirect Participant and the Trustee, as set forth in the Indenture, in order to permit the timely observance of the tender process with respect to the Bonds.

Credit Facility Provider Deemed Holder of Bonds

So long as the Credit Facility Provider has not dishonored a proper drawing (which drawing strictly complies with, and conforms to, the terms and conditions of the Credit Facility) under the Credit Facility, the Credit Facility Provider shall be deemed the owner of 100% of the Bonds secured by the Credit Facility for the purposes of receiving notice and of any action, notice, direction or consent permitted to be taken by the Owners of the Bonds, including consenting to amendments and supplements to the Indenture when such consent is required as provided in the Indenture.

Determination of Interest Rates

The Remarketing Agent will determine the interest rate for Daily, Weekly, Short-Term, and Long-Term Rate Periods, as the lowest rate of interest that, in the judgment of the Remarketing Agent, will produce as nearly as practical a par bid for the Bonds, as of the date of determination, taking into account Prevailing Market Conditions, provided that in no event will the interest rate on any Bonds, other than Credit Facility Provider Bonds, exceed the least of (i) the maximum rate permitted by law, (ii) 12% per annum and (iii) the maximum rate utilized to determine the amount available under any Credit Facility then in effect (the "Maximum Rate").

In the event the Remarketing Agent fails for any reason to determine the interest rate for any Interest Rate Period, the Bonds shall bear interest at the Alternate Rate.

Notice of the interest rate for each Daily Rate Bond and Weekly Rate Bond shall be available to Bondowners from the Remarketing Agent at its Designated Office (a) in the case of Daily Rate Bonds on the date such interest rate is determined by 10:00 a.m., New York City time, (b) in the case of Weekly Rate Bonds on the date such interest rate is determined by 4:00 p.m., New York City time and (c) after such times, upon request. Notice of the interest rate for each Daily Rate Bond, Weekly Rate Bond, Short-Term Rate Bond, Long-Term Rate Bond and, if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), shall be communicated by the Remarketing Agent to the Authority, the Trustee and the Credit Facility Provider by Electronic Means (a) in the case of Daily Rate Bonds by 10:00 a.m., New York City time, on the last Business Day of the week in which the interest rate for such Daily Rate Bond is determined, by 10:00 a.m., New York City time, on the last Business Day of the month in which the interest rate for such Daily Rate Bond is determined and upon request by the Authority, the Trustee or the Credit Facility Provider, and (b) in the case of Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds or Fixed Rate Bonds, not later than 4:00 p.m., New York City time, on the date such interest rate is determined, and shall be available to Bondowners after such time, from the Remarketing Agent at its Designated Offices and shall also be communicated by the Remarketing Agent to any Bondowner upon request.

Daily Rates

Daily Interest Periods will commence on each Business Day and will extend to, but not include, the next succeeding Business Day. The interest rate for each Daily Interest Period will be effective from and including the commencement date thereof and will remain in effect to, but not including, the next succeeding Business Day. Each such interest rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.

Weekly Rates

Weekly Interest Periods will commence on Thursday of each week and end on Wednesday of the following week; provided, however, that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Interest Period for the Bonds will commence on the Conversion Date and end on the next succeeding Wednesday and (ii) in the case of a conversion from a Weekly Rate to a Daily Rate, the last Weekly Interest Period prior to conversion will end on the last day immediately preceding the Conversion Date. The interest rate for each Weekly Interest Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such interest rate will be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period to which it relates.

Short-Term Rates

Each Short-Term Interest Period will be determined by the Remarketing Agent on the first Business Day of that Short-Term Interest Period as that Short-Term Interest Period which will, in the judgment of the Remarketing Agent, produce the greatest likelihood of the lowest net interest cost; provided that each Short-Term Interest Period (i) will be from 1 to 270 days in length but will not exceed the number of days of interest coverage provided by the Credit Facility minus five days, will not extend beyond the date that is five days before the Expiration Date of the Credit Facility and will not exceed the remaining number of days prior to the Conversion Date if the Remarketing Agent has given or received notice of any conversion to a different Interest Rate Period, (ii) will commence on a Business Day (except in the case of a conversion to a Short-Term Rate Period, the initial Short-Term Interest Period will commence on the Conversion Date), will end on a day preceding a Business Day, and (iii) in any event will end no later than the day preceding the applicable maturity date for the applicable Bonds. The Remarketing Agent may, in the reasonable exercise of its judgment, determine a Short-Term Interest Period that results in a Short-Term Rate on the applicable Bonds that is higher than would be borne by the applicable Bonds with a shorter Short-Term Interest Period in order to increase the likelihood of achieving the lowest net interest cost during the term of the applicable Bonds by assuring the effectiveness of such Short-Term Rate for a longer Short-Term Interest Period. The determination of a Short-Term Interest Period by the Remarketing Agent will be based upon the relative market yields of the applicable Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the reasonable exercise of the judgment of the Remarketing Agent, are otherwise comparable to the applicable Bonds, or any fact or circumstance relating to the applicable Bonds or affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the reasonable exercise of the judgment of the Remarketing Agent, will affect the market for the Bonds. The Remarketing Agent in its discretion, may consider such information and resources as it deems appropriate in making the determinations described in this paragraph, including consultations with the Authority, but the Remarketing Agent's determination of the Short-Term Interest Period will be based solely upon the reasonable exercise of the Remarketing Agent's judgment.

The interest rate for each Short-Term Interest Period will be effective from and including the commencement date of that Short-Term Interest Period and will remain in effect through and including the last day thereof. All Short-Term Rate Bonds will bear interest accruing at the same Short-Term Rate, and for the same Short-Term Interest Period. Each such interest rate will be determined by the Remarketing Agent by 12:00 p.m., New York City time, on the commencement date of the Short-Term Interest Period to which it relates.

Long-Term Rates

Long-Term Interest Periods will commence on a Conversion Date and subsequently on a January 1 which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding: (x) the commencement date of the following Long-Term Interest Period, (y) the Conversion Date on which a different Interest Rate Period will become effective or (z) the applicable maturity date for Bonds. The Long-Term Rate for each Long-Term Interest Period will be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Long-Term Rate will be determined on the Business Day immediately preceding the commencement date of such period. Long-Term

Interest Periods will not extend to a date beyond the fifth day next preceding the Expiration Date of the Credit Facility. The term of each Long-Term Interest Period will be specified in writing by the Authority to the Remarketing Agent, the Trustee, the Paying Agent and the Credit Facility Provider at least 20 days before its commencement. Prior to the commencement of any Long-Term Interest Period the Trustee shall receive a Favorable Opinion of Bond Counsel.

Fixed Rate

Any Bonds bearing interest at a Fixed Rate may not be converted to any other type of Interest Rate Period. The Fixed Rate Period will commence on a Conversion Date and will extend to the earlier of the date of redemption or the applicable maturity date for the applicable Bonds. The Fixed Rate will be determined pursuant to the Indenture.

Default Rate

While a Payment Default exists with respect to the Bonds, the interest rates on the Bonds that are not Credit Facility Provider Bonds will bear interest at the Default Rate. The Indenture defines the Default Rate as the Maximum Rate.

Credit Facility Provider Bonds

Notwithstanding the above provisions, Credit Facility Provider Bonds will bear interest at the Credit Facility Provider Rate and will be payable at the times and by such means as provided in the Reimbursement Agreement. Only the Credit Facility Provider or any Owner of Credit Facility Provider Bonds will receive interest on any Bonds at the Credit Facility Provider Rate.

For all purposes of the Indenture, payments of principal and interest on Credit Facility Provider Bonds are secured in the same manner as payments of principal and interest on the Bonds. There shall be included in the calculation of principal and interest on the Bonds under the Indenture any amounts owed by the Authority to a Credit Facility Provider in accordance with Credit Facility Provider Bonds in respect of principal and interest at the Credit Facility Provider Rate and all amounts payable in connection with a term loan or term out provision under the Reimbursement Agreement.

Term Loans

Any unreimbursed Tender Drawing will automatically convert into a Term Loan beginning on the one-hundred eighty-first day after the related Tender Drawing. Interest on each Term Loan will accrue at the Bank Rate and will be repayable to the Credit Facility Provider in twelve approximately equal quarterly principal installments.

Conversion

The Authority may, with the prior written consent of the Credit Facility Provider if the same Credit Facility will secure the Bonds before and after the conversion or a draw will be made upon such Credit Facility as a result of such conversion, elect to convert all of the Bonds from one Interest Rate Period (other than from a Fixed Rate Period) to another type of Interest Rate Period on any Conversion Date. A Conversion Date is a day on which Bonds are converted to bear interest from one Interest Rate Period to a different Interest Rate Period. The Interest Rate Periods consist of the Daily Rate Period, Weekly Rate Period, Short-Term Rate Period, Long-Term Rate Period and Fixed Rate Period.

Conversion Between Interest Rate Periods

Upon receipt of the written notice from the Authority of any proposed conversion, the Trustee will promptly give written notice of the proposed conversion, via Electronic Means or by written notice, to the Paying Agent, the Remarketing Agent, the Credit Facility Provider and any Rating Agency that has notified the

Trustee in writing that it has established a rating for the Bonds at the request of the Authority. The Trustee will give notice (which may be combined, where applicable, with any required notice of mandatory tender), by first class mail of the proposed conversion to the affected Owners of the Bonds not less than 10 days before the proposed Conversion Date. That notice must state: (i) the proposed Conversion Date and the proposed Interest Rate Period to be effective on such date; (ii) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date; (iii) the conditions, if any, to the conversion and the consequences of such conditions not being fulfilled; (iv) if the applicable Bonds are in certificated form, information with respect to required delivery of the Bond certificates and payment of the Purchase Price; and (v) the new Interest Payment Dates and Record Dates.

The Indenture provides that no conversion of Interest Rate Periods will become effective unless certain conditions are met, including but not limited to the condition that any Credit Facility to be held by the Trustee after the Conversion Date will be in an amount equal to the aggregate principal amount of all Outstanding Bonds, plus an amount equal to at least (i) 43 days' interest (183 days' interest if the conversion is to Long-Term Rate Bonds or, if the conversion is to Short-Term Rate Bonds, the maximum number of days of a Short-Term Interest Period, plus five days), plus in the case of a Credit Facility that does not automatically reinstate coverage for interest following a drawing to pay interest on the Bonds, the number of days during which the Bonds may continue to bear interest until purchased upon mandatory tender under the Indenture following a drawing in which the Credit Facility Provider may notify the Trustee that interest coverage has not reinstated or (ii) in the event that a rating will be maintained on the Bonds, then such other number of days of interest as may be required by any Rating Agency rating the Outstanding Bonds.

Failure of Conditions to Conversion

In the event any condition precedent to a conversion is not fulfilled, (i) the Conversion Date will not occur, (ii) any required mandatory tender will not occur, and (iii) the Bonds will continue in the then existing Interest Rate Period with the length of Interest Rate Period and the interest rate being determined in accordance with the Indenture. The Authority must give notice of withdrawal of a conversion notice to the Trustee, the Remarketing Agent, the Paying Agent and the Credit Facility Provider by telephone promptly confirmed in writing and thereafter the Trustee will give notice to the Owners via Electronic Means or by first class mail. No failure or cancellation of conversion will constitute an Event of Default.

Transfer and Exchange of Bonds; Persons Treated as Owners

The person in whose name any Bond is registered will be deemed and regarded as the absolute owner thereof for all purposes, except as provided below under "Redemption Provisions," and payment of or on account of the principal of and redemption premium, if any, and interest on any such Bonds or the Purchase Price thereof (which is an amount equal to the principal amount thereof plus, if such Purchase Date is not an Interest Payment Date therefore, accrued and unpaid interest thereon to such Purchase Date) will be made only to or upon the order of the Registered Owner thereof or his or her legal representative. All such payments will be valid and effective to satisfy and discharge the liability upon such Bonds to the extent of the sum or sums so paid.

So long as the Bonds are held in book-entry form, transfers of the Bonds by Beneficial Owners may be made only as described in "Appendix E – DTC AND THE BOOK-ENTRY ONLY SYSTEM." At any other time, any Bonds may be transferred or exchanged only upon the books kept for the registration and transfer of Bonds as provided in the Indenture.

Redemption

Mandatory Sinking Fund Redemption for the Bonds

The Bonds are subject to scheduled mandatory redemption by the Authority in part on each October 1 (or, if that date is not an Interest Payment Date, on the Interest Payment Date immediately succeeding that date) in the years and principal amounts set forth below, upon notice as hereinafter provided, in Authorized

Denominations, upon the conditions and terms prescribed in the Indenture, at a redemption price equal to the principal amount of the Bonds called, plus accrued interest to the redemption date, without premium, as follows:

Redemption Date (October 1)	**Principal Amount Bonds**
2017	$ 1,490,000
2018	1,550,000
2019	1,610,000
2020	1,675,000
2021	1,740,000
2022	1,810,000
2023	1,875,000
2024	1,955,000
2025	2,030,000
2026	2,105,000
2027	2,195,000
2028	2,280,000
2029	2,365,000
2030	2,460,000
2031	2,555,000
2032	2,655,000
2041	8,900,000
2042 (maturity)	2,525,000

Credits Against Scheduled Mandatory Redemption Obligations

At the option of the Authority, to be exercised by delivery of a certificate of the Authority Representative to the Trustee on or before the 45th day next preceding any scheduled mandatory redemption date, the Authority may (i) deliver to the Trustee for cancellation Bonds subject to scheduled mandatory redemption on that date or portions thereof in Authorized Denominations or (ii) specify a principal amount of Bonds or portions thereof in Authorized Denominations which prior to said date have been purchased or redeemed (otherwise than pursuant to the Indenture) and canceled by the Trustee at the request of the Authority and not theretofore applied as a credit against any scheduled mandatory redemption payment of the Bonds. Each Bond or portion thereof so delivered or previously redeemed will be credited by the Trustee at the principal amount thereof against the obligation of the Authority to redeem Bonds on the scheduled mandatory redemption date or dates designated in writing to the Trustee by the Authority Representative occurring at least 45 days after delivery of such designation to the Trustee, provided that if no such designation is made, such credit will not be credited against such obligation.

Optional Redemption

With the prior written consent of the Credit Facility Provider (if a Credit Facility is securing the Bonds), the Bonds are subject to optional redemption and payment prior to maturity in whole or in part, at the option of the Authority, as follows:

- Daily Rate Bonds and Weekly Rate Bonds are subject to optional redemption on any date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

- Short-Term Rate Bonds are subject to optional redemption on any Interest Payment Date at the redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

- Long-Term Rate Bonds are subject to optional redemption on the day after the end of each Long-Term Interest Period, at a redemption price equal to 100% of the principal amount redeemed, plus interest accrued to the redemption date.

- Fixed Rate Bonds are subject to optional redemption in accordance with the provisions of the Indenture.

Redemption of Credit Facility Provider Bonds

Credit Facility Provider Bonds are subject to special mandatory redemption upon the written direction to the Trustee from the Credit Facility Provider on the dates and in the amounts set forth in the Reimbursement Agreement.

Notice of Redemption

If fewer than all of the Bonds are to be redeemed and paid prior to maturity, the Trustee will select by lot by such method as the Trustee deems fair and appropriate, the Bonds to be redeemed, or portions thereof; provided, that Credit Facility Provider Bonds will be redeemed before other Bonds are redeemed. So long as all Bonds are held under a book-entry system by the DTC, a notice of redemption will be sent by the Trustee only to the DTC or its nominee at least seven days (30 days for Long-Term Rate Bonds or Fixed Rate Bonds) and not more than 60 days prior to the redemption date. Selection of book-entry interests in the Bonds called, and notice of the call to the owners of those interests called, is the responsibility of the DTC pursuant to its Rules and Procedures and of its Participants and Indirect Participants. Any failure of the DTC to advise any Participant, or of any Participant or any Indirect Participant to notify the book-entry interest owners, of any such notice and its content or effect will not affect the validity of any proceedings for the redemption of any Bonds.

Each notice of redemption will state the following: (i) with respect to identification of the Bonds to be redeemed: (a) the CUSIP number, (b) the original date of issue, (c) the interest rates (if calculable), (d) if less than all Outstanding Bonds of the applicable Bonds are to be redeemed, the identification number and principal amounts of each Bond to be redeemed, (e) the date of redemption, (f) the redemption price, (g) the name of the Trustee and the address and phone number of the Trustee's office handling the redemption, and (h) the maturity date of the Bonds to be redeemed; (ii) that the interest on such Bonds, or on the principal amount thereof to be redeemed, designated in such notice for redemption will cease to accrue from and after such redemption date; (iii) that on said date there will become due and payable on each such Bond the principal amount thereof to be redeemed at the then applicable redemption price and the interest accrued on such principal amount to the redemption date; and (iv) that each affected Bond must be surrendered to the Trustee in exchange for payment of such redemption price and the issuance of a new Bond or Bonds of the same date equal in aggregate principal amount to that portion, if any, of the principal sum of such Bond not to be redeemed. Upon such surrender, the Trustee will sign and deliver to the Holder of the Bond surrendered at the designated corporate trust office of the Trustee a new Bond or Bonds of the same date and of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

If at the time of mailing of notice of optional redemption of Bonds as described above, there shall not have been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, the notice of redemption may, at the direction of the Authority, specify that the redemption is contingent upon the deposit of moneys with the Trustee in an amount sufficient to pay the redemption price of all Bonds or portions of Bonds that are to be redeemed on the applicable redemption date, and the notice will be of no effect unless such moneys are so deposited.

Effect of Redemption

If unconditional notice of redemption of a Bond has been duly given as provided in the Indenture, or if conditional notice of optional redemption of a Bond has been given as described above and moneys sufficient to pay the redemption price of that Bonds on the redemption date have been deposited with the Trustee, then such Bond (or the principal amount thereof to be redeemed) so called for redemption will become due and payable on the redemption date designated in such notice, and such interest on such Bond (or the principal amount thereof to be redeemed) so called for redemption will become due and payable on the redemption date designated in such notice, and such interest will cease to accrue from and after the date of redemption.

Tender of Bonds

Optional Tenders During Daily Rate Periods and Weekly Rate Periods

Owners of Daily Rate Bonds or Weekly Rate Bonds may elect to have their Daily Rate Bonds or Weekly Rate Bonds (other than Credit Facility Provider Bonds or Bonds owned by or for the benefit of the Authority), or portions thereof in Authorized Denominations (provided that the amount of any Bond not to be purchased must be in an Authorized Denomination), purchased at the applicable Purchase Price (but only if remarketing proceeds and/or proceeds from a drawing on a Credit Facility are available for such purchase) on the following Purchase Dates and upon the giving of the following Electronic Means or written notices meeting the further requirements set forth below, provided, however, that so long as the Bonds are in book entry form the provisions set forth in the Indenture and the procedures established by the DTC generally for tenders of Bonds shall apply with respect to notice of tenders, delivery of Bonds, payment of Purchase Price and related matters:

- Subject to certain provisions of the Indenture, Daily Rate Bonds may be tendered for purchase at the applicable Purchase Price payable in immediately available funds on any Business Day upon Electronic Means or written notice of tender to the Paying Agent not later than 11:00 a.m., New York City time, on the designated Purchase Date.

- Weekly Rate Bonds may be tendered for purchase at the applicable Purchase Price payable in immediately available funds on any Business Day upon delivery of a written or Electronic Means notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the designated Purchase Date.

Each notice of tender: (i) must, in case of a written notice, be delivered to the Paying Agent at its Designated Office and be in form satisfactory to the Paying Agent; (ii) must state (A) the principal amount of the Daily Rate Bond or Weekly Rate Bond to which the notice relates and the CUSIP number of that Bond, (B) that the Owner irrevocably demands purchase of that Bond or a specified portion thereof in an Authorized Denomination, (C) the Purchase Date on which that Bond or portion thereof is to be purchased and (D) payment instructions with respect to the Purchase Price; and (iii) must automatically constitute, whether delivered in writing or by Electronic Means, (A) an irrevocable offer to sell the Bond (or portion thereof) to which such notice relates on the Purchase Date to any purchaser selected by the Remarketing Agent (or to the Credit Facility Provider in the case of purchases made with funds paid under the Credit Facility) at a price equal to the Purchase Price, (B) an irrevocable authorization and instruction to the Paying Agent to effect transfer of such Bond (or portion thereof) upon receipt by the Paying Agent of funds sufficient to pay the Purchase Price on the Purchase Date, (C) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of that Bond (or portion thereof to be purchased), (D) an acknowledgment that such Owner will have no further rights with respect to that Bond (or portion thereof) upon deposit of an amount equal to the Purchase Price thereof with the Paying Agent on the Purchase Date, except for the right of such Owner to receive the Purchase Price upon surrender of that Bond to the Paying Agent, and (E) an agreement of such Owner to deliver such Daily Rate Bonds or Weekly Rate Bonds, with all necessary endorsements for transfer and signature guarantees, to the Paying Agent at its Designated Office not later than 1:00 p.m., New York City time, on the Purchase Date.

The determination of the Paying Agent as to whether a notice of tender has been properly delivered pursuant to the foregoing will be conclusive and binding upon the Owner. The Paying Agent may waive any irregularity or nonconformity in any notice of tender.

All Daily Rate Bonds or Weekly Rate Bonds as to which a written notice specifying the Purchase Date has been delivered pursuant to the Indenture (and which have not been tendered to the Paying Agent) will be deemed tendered on the Purchase Date specified. From and after the specified Purchase Date of a Bond or Bonds tendered to the Paying Agent or deemed tendered pursuant to the Indenture, the former Owner of such Bonds will be entitled solely to the payment of the applicable Purchase Price of Bonds tendered or deemed tendered, which Purchase Price will be payable only as provided in the Indenture.

If the Bonds are held in a book-entry form at the DTC, the right to optionally tender Daily Rate Bonds or Weekly Rate Bonds may be exercised by the beneficial owners of those Bonds. Such right will be exercised by delivery by a beneficial owner to the Paying Agent no later than the times specified above of the notice described above stating that such beneficial owner will cause its beneficial interest (or portion thereof in an Authorized Denomination) to be tendered, the amount of such interest to be tendered, the date on which such interest will be tendered and the identity of the Participant through which the beneficial owner maintains its interest. Upon delivery of such notice, the beneficial owner must make arrangements to have its beneficial ownership interest in the Bonds being tendered to the Paying Agent transferred on the records of the DTC to the Paying Agent at or prior to 1:00 p.m., New York City time, on the Purchase Date.

Upon receipt of any notice of tender relating to Bonds bearing interest at the Daily Rate, the Paying Agent immediately will notify the Authority, the Remarketing Agent, the Trustee and the Credit Facility Provider by telephonic notice of the amount of such Bonds to be tendered pursuant to such notice, and the Paying Agent will confirm that telephonic notice by Electronic Means by 11:00 a.m., New York City time, on the Purchase Date. If, however, the Paying Agent receives notice of tender relating to Bonds bearing interest at the Weekly Rate, the Paying Agent will, not later than 5:00 p.m., New York City time, on the next Business Day, send notice of such tender to the Authority, the Remarketing Agent, the Trustee and the Credit Facility Provider by Electronic Means. The Paying Agent will include in the notice provided while the Bonds are bearing interest at either the Daily Rate or the Weekly Rate the amount of the Purchase Price of such Bonds and the portion, if any, thereof representing accrued and unpaid interest on such Bonds to the Purchase Date.

Mandatory Purchase of Bonds

The Bonds will be subject to mandatory tender for purchase by the Paying Agent as follows:

Mandatory Tender Upon Expiration of Credit Facility or Replacement of Credit Facility With Substitute Credit Facility. While the Bonds require the maintenance of a Credit Facility each Bond is subject to mandatory tender for purchase by the Paying Agent at a Purchase Price equal to 100% of the principal amount thereof plus any unpaid interest accrued from the immediately preceding Interest Payment Date, (1) on a Business Day selected by the Trustee which shall be at least five days prior to the expiration date of the Credit Facility; and (2) on the date on which the then current Credit Facility is replaced with a Substitute Credit Facility which shall be at least five days prior to the expiration date of the Credit Facility. Payment of the Purchase Price will be made from proceeds of remarketing or a draw of moneys upon the current Credit Facility that is expiring or being replaced.

Mandatory Tender Upon Notice by the Credit Facility Provider. While a Credit Facility is in effect, the Bonds are subject to mandatory tender for purchase by the Paying Agent in whole at a Purchase Price equal to 100% of the principal amount thereof plus any interest accrued from the immediately preceding Interest Payment Date, (1) on a date which shall be a Business Day and shall not be more than one Business Day after the Trustee receives notification from that Credit Facility Provider of that Credit Facility Provider's decision to exercise its right of mandatory tender as a result of the occurrence of certain events of default or termination under the Reimbursement Agreement, and (2) on the date designated by the Trustee following receipt by the Trustee from the Credit Facility Provider that the Credit Facility Provider is not reinstating the Credit Facility following a draw, which date shall be a Business Day and shall be not more than one Business Day after the Trustee receives notice of non-reinstatement from such Credit Facility Provider. See "THE LETTER OF CREDIT AND THE CREDIT FACILITY."

Mandatory Tender of Short-Term and Long-Term Rate Bonds. Each Short-Term Rate Bond shall be subject to mandatory tender for purchase by the Paying Agent on the first day following the last day of each Short-Term Interest Period applicable to such Bond, and each Long-Term Rate Bond shall be subject to mandatory tender for purchase on the first day following the last day of each Long-Term Interest Period, in each case at a Purchase Price equal to 100% of the principal amount thereof, plus any unpaid interest accrued from the immediately preceding Interest Payment Date.

Mandatory Tender upon Conversion of Modes. Each Bond shall be subject to mandatory tender for purchase by the Paying Agent on each Conversion Date at a Purchase Price equal to 100% of the principal amount thereof plus any unpaid interest accrued from the immediately preceding Interest Payment Date.

The Trustee will give notice of mandatory tender of Bonds via Electronic Means or by first-class mail to the Owners of the Bonds and to the Authority, the Remarketing Agent, the Paying Agent and the Credit Facility Provider. If the mandatory tender is due to a conversion from one Interest Rate Period to another Interest Rate Period or due to an expiration of a Credit Facility or the replacement of a Credit Facility with an alternate Credit Facility, the Trustee will give that notice no fewer than ten days prior to the Purchase Date. If the mandatory tender is because of the Credit Facility Provider's decision to exercise its right of mandatory tender as a result of the occurrence of certain Events of Default or termination under the Reimbursement Agreement, the Trustee will give that notice immediately. No notice of mandatory tender is required to be given when the tender is on the first day following the last day of each Short-Term Interest Period or the first day following the last day of each Long-Term Interest Period.

Owners of Bonds must deliver those Bonds to be purchased pursuant to a mandatory tender to the Paying Agent (together with necessary assignments and endorsements) at or prior to 1:00 p.m., New York City time, on the applicable Purchase Date.

Any Bonds to be purchased by the Paying Agent pursuant to mandatory tender that are not delivered for purchase on or prior to the Purchase Date, for which notice has been given as in accordance with the Indenture and there has been irrevocably deposited in trust with the Paying Agent an amount sufficient to pay the Purchase Price of such applicable Bonds, will be deemed to have been delivered to the Paying Agent for purchase, and the Owners of such Bonds will not be entitled to any payment (including any interest to accrue on or after the Purchase Date) other than the Purchase Price of those Bonds, and those Bonds will not be entitled to any benefits of the Indenture, except for payment of that Purchase Price out of the moneys deposited for that payment.

Purchase of Bonds

Not later than 2:45 p.m., New York City time, on each Purchase Date, the Paying Agent will disburse the Purchase Price of the Bonds to be purchased on that Purchase Date to the Owners thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority: (i) the proceeds of the remarketing by the Remarketing Agent of those Bonds; (ii) if a Credit Facility is in effect on that Purchase Date, the proceeds of a Credit Facility Request; and (iii) amounts paid by the Authority to the Paying Agent for the purchase of such Bonds, provided that the Authority has no obligation to provide to the Paying Agent any moneys for such purpose.

If the funds available (from the sources indicated above) for the purchase of the Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the Bonds subject to purchase on such Purchase Date (including undelivered Bonds), then, no purchase of any of that applicable Bonds will occur on such Purchase Date and, on such Purchase Date, the Paying Agent will (i) return all of such Bonds that were tendered to the Owners thereof, (ii) return all moneys received by the Paying Agent for the purchase of such Bonds to the respective Persons that provided such moneys (in the amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If the applicable Credit Facility is in effect, no such failure to purchase the Bonds will constitute an Event of Default under the Indenture. From the date of the failed Purchase Date until all such Bonds that were to be purchased on the Purchase Date are further remarketed or purchased in accordance with the terms set forth above, such Bonds will bear interest at the Default Rate.

Remarketing of Bonds

Whenever the Remarketing Agent receives notice of optional or mandatory tender of Bonds, the Remarketing Agent will offer for sale and use its best efforts to solicit purchases of the applicable Bonds subject to purchase on the applicable Purchase Date at a price equal to the applicable Purchase Price. The Remarketing Agent, however, will offer for sale and use its best efforts to arrange for the sale and remarketing of all Credit

Facility Provider Bonds, prior to the sale and remarketing of any other Bonds, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon. The Remarketing Agent will not offer the Bonds to the Authority.

Not later than 11:15 a.m., New York City time, on each Purchase Date, the Remarketing Agent shall notify the Trustee, the Paying Agent and the Credit Facility Provider by Electronic Means, promptly confirmed by a written notice of (i) the Purchase Price of the Bonds to be sold by the Remarketing Agent and (ii) the Purchase Price of the Bonds tendered for purchase which will not be sold by the Remarketing Agent, and the Paying Agent shall then determine the amount, if any, by which the Purchase Price of the Bonds to be purchased on such Purchase Date exceeds the amount of the proceeds of the remarketing of such Bonds by the Remarketing Agent on deposit in the Remarketing Proceeds Account at such time and shall immediately give telephonic or Electronic Means notice of that amount to the Trustee, the District and the Credit Facility Provider, which notice shall be promptly confirmed in writing; and

(i) if a Credit Facility is in effect on such Purchase Date, then, except with respect to Credit Facility Provider Bonds held pursuant to the Indenture and Bonds held by the District, (A) the Trustee shall submit in accordance with the terms of the Credit Facility and by such time as is required to receive funds on the Purchase Date for the payment of the Purchase Price (in no event later than 11:30 a.m. New York City time), a Credit Facility Request to the Credit Facility Provider requesting the purchase by that Credit Facility Provider under the Credit Facility, or the funding by the Credit Facility Provider under the Credit Facility of moneys for the purchase, of the Bonds having a Purchase Price equal to the amount of such excess, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Trustee shall transfer to the Paying Agent and the Paying Agent shall deposit the proceeds of the Credit Facility Request received by the Trustee in the Credit Facility Proceeds Account; or

(ii) if no Credit Facility is in effect on such Purchase Date, then (A) not later than 12:30 p.m., New York City time, on such Purchase Date, the Paying Agent shall notify the Authority that the amount of such excess is the amount payable by the Authority to the Paying Agent for purposes of causing the Paying Agent to purchase on behalf of the Authority such Bonds having a Purchase Price equal to such excess, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Paying Agent shall deposit the amount, if any, received by the Paying Agent from the Authority for such purpose in the Purchase Account.

Not later than 2:45 p.m., New York City time, on each Purchase Date, the Paying Agent shall disburse the Purchase Price of the Bonds to be purchased on such Purchase Date to the Owners thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority:

(i) Moneys on deposit in the Remarketing Proceeds Account (representing the proceeds of the remarketing by the Remarketing Agent of such Bonds);

(ii) If a Credit Facility is in effect on such Purchase Date, moneys on deposit in the Credit Facility Proceeds Account (representing the proceeds of a Credit Facility Request); and

(iii) Moneys on deposit in the Purchase Account (representing amounts paid by the Authority to the Paying Agent for the purchase of such Bonds). If a Credit Facility is in effect for the Bonds, then the Authority has no obligation to deposit moneys in the Purchase Account for, and has no obligation to purchase, tendered Bonds that are not remarketed.

If the funds available (from the sources indicated above) for the purchase of the Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the Bonds subject to purchase on such Purchase Date (including Undelivered Bonds), then, no purchase of any Bonds shall occur on such Purchase Date and, on such Purchase Date, the Paying Agent shall (i) return all of such Bonds that were tendered to the Owners thereof, (ii) return all moneys received by the Paying Agent for the purchase of such Bonds to the respective Persons that provided such moneys (in the amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If the Credit Facility is in effect, no such failure to purchase the Bonds shall constitute an Event of Default under the Indenture. From the date of the failed Purchase Date until all such Bonds that

were to be purchased on the Purchase Date are further remarketed or purchased in accordance with the terms of this section, such Bonds shall bear interest at the Default Rate.

Revision of Book-Entry System; Replacement Bonds

The Indenture provides for issuance of fully registered Bonds ("Replacement Bonds") directly to owners of Bonds other than DTC or its nominee only in the event that DTC determines not to continue to act as securities depository for the Bonds.

Upon occurrence of this event, the Authority may in its discretion attempt to have established a securities depository book-entry relationship with another securities depository. If the Authority does not do so, or is unable to do so, and after the Trustee has made provisions for notification of the owners of book-entry interests in the Bonds by appropriate notice to DTC, the Authority and the Trustee will authenticate and deliver Replacement Bonds for the Bonds, in fully registered form, in Authorized Denomination. If the elimination of a securities depository book-entry system for the Bonds is not the result of Authority action or inaction, the delivery of Replacement Bonds will be at the expense (including printing costs) of any persons requesting issuance of Replacement Bonds.

Replacement Bonds will be exchangeable for fully registered Bonds of any denomination or denominations authorized by the Indenture in the aggregate principal amount not exceeding the unmatured and unredeemed principal amount of such Bonds and bearing interest at the same rate and maturing on the same date. Replacement Bonds will be transferable at the Designated Office of the Trustee or any Authentication Agent, without charge (except any tax, fee, or other governmental charge required to be paid). Exchange or transfer of then redeemable Replacement Bonds is not required to be made (i) during the 15 days preceding the date of a selection of Replacement Bonds to be redeemed, or (ii) of a particular Replacement Bond selected for redemption (in whole or part). See Appendix E – "DTC AND THE BOOK ENTRY ONLY SYSTEM."

SCHEDULED DEBT SERVICE ON THE BONDS

The following is the scheduled Annual Debt Service on the Bonds the 2009 Series B Bonds, the 2010 Series A Bonds, the 2010 Series B Bonds and the aggregate amount of Annual Debt Service.

Bond Year Ending (October 1)	2012A Principal	2012A Interest[1]	2012A Annual Debt Service[1]	2009B Annual Debt Service	2010A Annual Debt Service	2010B Annual Debt Service[2]	Aggregate Annual Debt Service[1][2][3]
2012	-	$ 307,027	$ 307,027	$ 3,203,244	$ 363,100	$ 1,709,962	$ 5,583,333
2013	-	1,188,491	1,188,491	3,196,244	1,273,100	1,709,962	7,367,797
2014	-	1,188,491	1,188,491	3,178,644	1,289,900	1,709,962	7,366,997
2015	-	1,188,491	1,188,491	3,170,644	1,287,650	1,709,962	7,356,747
2016	-	1,188,491	1,188,491	3,149,644	1,278,150	1,709,962	7,326,247
2017	$ 1,490,000	1,188,491	2,678,491	3,147,594	1,281,950	1,709,962	8,817,997
2018	1,550,000	1,148,038	2,698,038	3,129,844	1,278,200	1,709,962	8,816,043
2019	1,610,000	1,105,955	2,715,955	3,111,094	1,288,200	1,709,962	8,825,211
2020	1,675,000	1,062,244	2,737,244	3,091,344	1,279,200	1,709,962	8,817,749
2021	1,740,000	1,016,768	2,756,768	3,073,744	-	2,979,962	8,810,473
2022	1,810,000	969,527	2,779,527	3,055,544	-	2,982,583	8,817,654
2023	1,875,000	920,385	2,795,385	3,041,744	-	2,979,770	8,816,899
2024	1,955,000	869,479	2,824,479	3,019,981	-	2,975,649	8,820,109
2025	2,030,000	816,401	2,846,401	2,997,581	-	2,981,155	8,825,137
2026	2,105,000	761,286	2,866,286	2,982,306	-	2,979,703	8,828,296
2027	2,195,000	704,135	2,899,135	2,955,906	-	2,979,844	8,834,885
2028	2,280,000	644,541	2,924,541	2,932,663	-	2,982,581	8,839,785
2029	2,365,000	582,639	2,947,639	2,912,300	-	2,977,717	8,837,656
2030	2,460,000	518,429	2,978,429	2,885,750	-	2,975,449	8,839,629
2031	2,555,000	451,640	3,006,640	2,865,750	-	2,975,580	8,847,970
2032	2,655,000	382,272	3,037,272	2,839,250	-	2,972,435	8,848,957
2033	-	310,189	310,189	5,966,500	-	2,971,470	9,248,158
2034	-	310,189	310,189	5,974,750	-	2,972,482	9,257,420
2035	-	310,189	310,189	5,982,000	-	2,975,270	9,267,458
2036	-	310,189	310,189	5,982,750	-	2,984,632	9,277,571
2037	-	310,189	310,189	5,991,750	-	2,980,693	9,282,632
2038	-	310,189	310,189	5,998,000	-	2,982,945	9,291,134
2039	-	310,189	310,189	6,006,000	-	2,985,966	9,302,155
2040	-	310,189	310,189	-	-	8,979,544	9,289,732
2041	8,900,000	310,189	9,210,189	-	-	-	9,210,189
2042	2,525,000	68,554	2,593,554	-	-	-	2,593,554
Total	$43,775,000	$21,063,474	$64,838,474	$105,842,563	$10,619,450	$80,965,086	$262,265,573

(1) Assuming an interest rate of 2.715% based on the amended 2008 Swap.
(2) Debt service on the Series 2010B bonds is net of any treasury credits.
(3) Amounts may not add due to rounding.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds constitute limited obligations of the Authority payable from the Installment Payments made by the District pursuant to the Installment Purchase Agreement, and from certain funds established under the Indenture. The Installment Purchase Agreement in an aggregate principal amount equal to the principal amount of the Bonds and the Installment Payments under the Installment Purchase Agreement are scheduled to be sufficient for the payment in full of all principal of and interest on the Bonds when due, or upon the earlier redemption thereof, including any redemption premium.

Pursuant to the Indenture, principal of and interest on the Bonds is to be secured solely by the Trust Estate. The Indenture defines the Trust Estate to be (i) all of the rights, title and interest of the Authority in the Installment Purchase Agreement and the proceeds and collections therefrom, (ii) the proceeds of the sale of the Bonds, and (iii) moneys in all funds established by the Indenture (except the Rebate Fund), including the investments, if any, thereof, and all income and proceeds derived from such investments.

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (EXCLUSIVE OF THE REBATE FUND). NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR ITS MEMBERS IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE INSTALLMENT PAYMENTS AND THE AMOUNTS IN THE FUNDS AND ACCOUNTS ESTABLISHED AND THE INDENTURE (EXCLUSIVE OF THE REBATE FUND) IS PLEDGED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY OR INTEREST ON THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL 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. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS TO BE MADE PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT.

The Master Installment Purchase Agreement

Net Revenues. The Master Agreement sets forth the conditions and terms upon which District's future obligations will be incurred and secured by Net Revenues. Under the Master Agreement, the District irrevocably grants and pledges the Net Revenues first, to secure Parity Obligations and second, to secure Subordinate Obligations. The lien and pledge to the Parity Obligations constitute a first lien on Net Revenues. The Installment Purchase Agreement, the Series 2009B Installment Purchase Agreement, the 2010A and 2010B Installment Purchase Agreements, the 2008 Swap and the District's obligations under the Reimbursement Agreement are each Parity Obligations under the Master Agreement. Any additional Parity Obligations executed and delivered under the Master Agreement will be secured on a parity with the Installment Purchase Agreement.

All Parity Obligations will be of equal rank without preference, priority or distinction of any Parity Obligations over any other Parity Obligations. Unless expressly stated to the contrary in a Subordinate Obligation, all Subordinate Obligations will be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations but secured on a subordinated basis to all Parity Obligations. The District will agree and covenant in the Master Agreement to deposit all Revenues received by it when and as received in the Revenue Fund, and all money on deposit in the Revenue Fund will be applied and used only in the order provided therein.

As defined in the Master Agreement, the term "Revenues" means all income and revenue received or receivable by the District from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, together with all Ad Valorem Taxes, ad valorem assessments, standby charges, rates, fees and charges received by the District for the Service and the other services of the System and all proceeds of insurance covering business interruption loss relating to the System and all added facilities charges, service installation charges, distribution system fees and charges payable to the District for the Service made available or provided by the System and all payments for the lease of property comprising a part of the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System, and including all Payment Agreement Receipts, and including all income from the investment of amounts on deposit in the Revenue Fund, the Parity Obligation Payment Fund, and, the Rate Stabilization Fund, but excluding in all cases (i) any proceeds of taxes (including Ad Valorem Taxes) and assessments levied and collected by or on behalf of the District for obligations that are payable solely from such taxes (including Ad Valorem Taxes) or assessments and not from any other Revenues, (ii) any refundable deposits made to establish credit and any advances or contributions of or in aid of construction, and (iii) any income from the investment of amounts on deposit in the Improvement Fund. Notwithstanding the foregoing, and solely for purposes of the Coverage Requirement, there shall be deducted from Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by the Master Installment Purchase Agreement, and there shall be added to Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by the Master Installment Purchase Agreement. Amounts on deposit in the Rate Stabilization Fund shall not be included in calculating Revenues for the purpose of satisfying the conditions for executing Parity Obligations.

"Net Revenues" means, for any period, the Revenues during such period less the Maintenance and Operation Costs during such period.

"Maintenance and Operation Costs" means all reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including the cost of purchased water, scheduled payments on Contract Resource Obligations, all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Master Agreement or of any resolution authorizing the execution of any Supplemental Contract or of such Supplemental Contract, such as compensation, reimbursement and indemnification of the trustee for any such Supplemental Contract and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

Application of Revenues. The District covenants in the Master Agreement to deposit all Revenues received by it in the Western Municipal Water District of Riverside County Revenue Fund (the "Revenue Fund") which fund will be maintained so long as any Payments under the Master Agreement remain Outstanding. Moneys in the Revenue Fund will be used in the following order:

(A) The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due; and

(B) On or before the last Business Day in each month, the District shall, from the remaining money then on deposit in the Revenue Fund, deposit in the "Western Municipal Water District Parity Obligation Payment Fund," which fund the District agrees to hold and maintain so long as any Parity Payments due under the Master Agreement be Outstanding the following amounts in the following order of priority:

(1) a sum equal to (a) the interest and principal payments becoming due and payable under all Supplemental Contracts that are Parity Obligations, plus (b) regularly scheduled payments or the net payments becoming due and payable on all Parity Payment Agreements (except any Termination Payments), plus (c) any other amounts due with respect to Parity Obligations (including any letter of credit and remarketing fees), in each case, during the next succeeding month; plus

(2) an amount equal to any Termination Payments with respect to the Initial Parity Payment Agreement becoming due and payable; plus

(3) all amounts due to make up any deficiency in the Reserve Funds for Parity Obligations in accordance with the provisions of the applicable Issuing Document, including all Reserve Fund Credit Facility Costs.

From time to time, moneys on deposit in the Parity Obligation Payment Fund shall be transferred by the District to the Trustee or other third party payee thereof in accordance with the terms of the Parity Obligations to make and satisfy the Parity Payments due on the next applicable Payment Dates on such Parity Obligations.

Moneys on deposit in the Parity Obligation Payment Fund for payment of Termination Payments under Parity Payment Agreements under clause (2) above shall be transferred by the District to the applicable counterparty under such Parity Payment Agreement in accordance with the terms of the related Parity Payment Agreement to make and satisfy the Termination Payment payable under such Parity Payment Agreement.

(A) After the payments contemplated by subparagraphs (A) and (B) above have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of the interest and principal payments and other regularly scheduled payments becoming due and payable under all Supplemental Contracts that are Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the Reserve Funds for Subordinate Obligations, including all Reserve Fund Credit Facility Costs) so long as the following conditions are met:

(1) all Maintenance and Operations Costs are being and have been paid and are then current; and

(2) no deficiency in any Reserve Fund for Parity Obligations shall exist and no Reserve Fund Credit Facility Costs shall be due and payable, and there shall have been paid, or segregated within the Revenue Fund, the amounts currently payable pursuant to subparagraphs (A) and (B) above.

(B) After deposits contemplated by subparagraphs (A), (B) and (C) have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of any Termination Payments on all Subordinate Payment Agreements.

(C) After deposits contemplated by subparagraphs (A), (B), (C) and (D) have been made, any amounts thereafter remaining in the Revenue Fund may be used for any lawful purpose.

Rate Covenant; Collection of Rates and Charges. The District covenants under the Master Agreement to fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably

fair and nondiscriminatory and which are established to yield Adjusted Annual Net Revenues, for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year.

"Adjusted Annual Net Revenues" means, for any Fiscal Year or twelve (12) calendar month period, the Revenues during such Fiscal Year or twelve (12) calendar month period, minus any interest earnings from amounts on deposit in all Reserve Funds established in connection with Parity Obligations, minus the Maintenance and Operation Costs for such period.

"Adjusted Annual Debt Service" means, for any Fiscal Year or twelve (12) calendar month period, the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period minus the amount of such Annual Debt Service paid from the proceeds of Parity Obligations or from any interest earnings on and releases of amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

"Coverage Requirement" is defined in the Master Agreement to mean generally, for any Fiscal Year or twelve (12) calendar month period, an amount of Adjusted Annual Net Revenues:

(i) which equals at least one hundred ten percent (110%) of the Adjusted Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and

(ii) which is sufficient to cover payments due on all Parity Obligations and Subordinate Obligations for such Fiscal Year or (12) calendar month period (but excluding payments that are one-time or extraordinary payments, such as termination payments on Payment Agreements)

Provided, that, for purposes of determining compliance with the Coverage Requirement, it shall be assumed that all Obligations accrue interest at the applicable Assumed Interest Rate. See Appendix B – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Master Installment Purchase Agreement – Covenants of the District" herein.

For purposes of satisfying the Coverage Requirement, the District may release funds from the Rate Stabilization Fund to the Revenue Fund for inclusion in Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Stabilization Fund."

The District further covenants under the Master Agreement to have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the System to pay the rates, fees and charges applicable to the Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the 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 and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the System and, so long as no Event of Default exists under the Master Agreement, may waive or reduce rates, fees and charges for one or more customers and consumers so long as the total amount waived or reduced does not exceed 1% of Revenues collected in the most recent Fiscal Year and such waver or reduction, upon implementation, will not cause the District to be in default of its covenants in the Master Agreement.

Additional Parity Obligations. The District may at any time incur any Parity Obligations payable as provided in the Master Agreement; provided:

(A) There will be on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Net Revenues were at least equal to 110% of Maximum Annual Debt Service on all Outstanding Parity Obligations plus the Parity Obligations proposed to be executed;

provided, that for the purpose of providing such Certificate, the District may adjust the foregoing Adjusted Annual Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from each new connection to the System that during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) calendar month period; and

(b) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Service which during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(2) A Certificate of the District based: (a) on audited figures or (b) to the extent audited figures are not available, on figures taken by an independent certified public accountant from the District's books and records, showing (i) the end of the period during which interest on the Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligations proposed to be executed is executed, or (ii) the date on which substantially all Projects financed with the Parity Obligations or Supplemental Contracts proposed to be executed are expected to commence operations, will be at least equal to 110% of the Maximum Annual Debt Service on all Outstanding Parity Obligations plus Parity Obligations proposed to be issued and payments on additional Supplemental Contracts (if any Supplemental Contracts are included in the calculations under (b) below) for such period; provided, that for the purpose of providing this Certificate of the District, the District may adjust the foregoing estimated Adjusted Annual Net Revenues to reflect:

(a) An allowance for Net Revenues that would have been derived from each new connection to the System that during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) calendar month period; and

(b) An allowance for Net Revenues that are estimated to be derived from customers of the System anticipated to be served by the additions, betterments or improvements to the System to be financed by the Parity Obligations proposed to be executed together with any additional Supplemental Contracts expected to be executed and entered into during such five (5) year period; and

Notwithstanding the foregoing provisions, there will be no limitations on the ability of the District to execute any Parity Obligations at any time to refund any outstanding Parity Obligations so long as the Annual Debt Service payable by the District with respect to such refunding Parity Obligations for each Fiscal Year is less than or equal to 105% of the Annual Debt Service for each Fiscal Year for such Parity Obligations being refunded.

Additional Subordinate Obligations. Under the Master Agreement, the District may at any time execute any Subordinate Obligations so long as no Event of Default has occurred and is continuing and so long as the District will satisfy the test contained in paragraph (ii) of the definition of "Coverage Requirement" upon the issuance of such Subordinate Obligations.

Rate Stabilization Fund

The Master Installment Purchase Agreement establishes the Rate Stabilization Fund, which fund the District agrees to hold and maintain as directed by the District so long as any Payments due thereunder shall be Outstanding. In connection with the issuance of the 2009A Bonds the District made an initial deposit of $20,000,000 to the Rate Stabilization Fund. The District may at any time deposit in the Rate Stabilization Fund

any Net Revenues and any other money available to be used therefore, the District may at any time withdraw from the Rate Stabilization Fund any money therein for the deposit in the Revenue Fund and the District shall withdraw from the Rate Stabilization Fund any money therein for deposit in the Revenue Fund in the event there are insufficient amounts in the Revenue Fund to make the deposits and transfers required by the Master Installment Purchase Agreement; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred eighty (180) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining Annual Revenues; and provided further, that no deposit of Net Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period. Interest earnings on amounts in the Rate Stabilization Fund will be transferred to the Revenue Fund immediately upon receipt.

On June 30, 2011, the District withdrew $2,000,000 from the Rate Stabilization Fund and deposited that amount to the Revenue Fund. The District elected to transfer such amount to maintain its historic fiscal year end debt service coverage ratio. The transfer had the effect of increasing Net Revenues for Fiscal Year 2010-11 which were lower than expected due to a combination of factors, including cooler than normal weather, conservation measures and a continued slow economy in the District's service area. On May 17, 2012, the District deposited $2,000,000 from unrestricted and uncommitted reserves to the Rate Stabilization Fund. The District does not presently anticipate making a similar withdrawal in Fiscal Year 2011-12 or 2012-13, but may do so if present conditions change. If additional withdrawals are made from the Rate Stabilization Fund, the District will determine whether and when it will replenish such withdrawals on a case by case basis.

The Installment Purchase Agreement

The Installment Purchase Agreement is a Parity Obligation and a Supplemental Contract under the Master Agreement. In consideration for the Authority's agreement to provide financing or refinancing pursuant to the provisions of the Installment Purchase Agreement, the District will, subject to any rights of prepayment, pay to the Authority, solely from Net Revenues and from no other sources, the Installment Payments, as provided in the Installment Purchase Agreement. The Installment Payments also include additional amounts due on Provider Bonds as provided in the Reimbursement Agreement. The obligation of the District to make the Installment Payments is absolute and unconditional and until such time as the Installment Payments have been paid in full (or provision for the payment thereof will have been made pursuant to the Installment Purchase Agreement), the District will not discontinue or suspend any Installment Payments required to be paid by it under the Installment Purchase Agreement whether or not the 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 such payments will not be subject to reduction whether by offset or otherwise and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Outstanding Parity Obligations

As of the date of issuance of the Bonds, the following obligations represent Parity Obligations for purposes of the Master Agreement:

- Series 2009B Installment Purchase Agreement in the outstanding aggregate principal amount of $52,485,000.

- 2010A and 2010B Installment Purchase Agreement in the outstanding aggregate principal amount of $51,240,000.

- The 2008 Swap with an initial notional amount of $48,000,000. See Introduction – The 2008 Swap.

- The Reimbursement Agreement. See "The Letters of Credit Agreement – General."

No Reserve Fund

No reserve fund has been established for the Bonds. Owners of the Bonds will not have any interest in or right to receive any amounts contained in reserve funds that may have been established for any Parity Obligations.

Substitute Credit Facility

Subject to the provisions of the Indenture, the Authority may provide the Trustee with a letter of credit, surety bond or other credit facility which satisfies the requirements of the Indenture (a "Substitute Credit Facility") to provide for the payment of the purchase price of Bonds. Any such Substitute Credit Facility may be for a term of years which is more or less than the Credit Facility which is being replaced and shall contain administrative provisions as are consistent with the initial Credit Facility and reasonably acceptable to the Trustee. Nothing in the Indenture shall require the Authority to deliver to the Trustee a Substitute Credit Facility upon the expiration or termination of a Credit Facility; provided, that, in the absence of a Substitute Credit Facility, upon such expiration or termination of a Credit Facility all Bonds shall be subject to a Long-Term Interest Rate Period until the maturity dates of Bonds.

THE LETTER OF CREDIT AND THE CREDIT FACILITY

The following information has been provided by the Credit Facility Provider for use in this Official Statement. Neither the Authority nor the Underwriter has undertaken any independent investigation of the operations of the Credit Facility Provide and no representation is made herein as to the accuracy or adequacy of such information.

Union Bank, N.A.

Union Bank is a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies, and major corporations. The Bank operates 407 branches and 609 ATM's in California, Oregon, Washington, Texas, Chicago, and New York, as well as two international offices. The Bank serves corporate clients across the country, and has a retail customer base of approximately 1 million households.

Union Bank, N.A. is the primary subsidiary of UnionBanCal Corporation, the second-largest commercial bank holding company headquartered in California, based on assets of $92.3 billion at March 31, 2012. UnionBanCal is a wholly owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd., and a member of the Mitsubishi UFJ Financial Group (MUFG, NYSE:MTU), one of the world's largest financial organizations.

For the quarter ending March 31, 2012, the Corporation had loans totaling $54.3 billion, total assets of $92.3 billion and total deposits of $65.1 billion. Net income was $195 million, up from $129 million for the prior quarter, but down from $235 million for the year-ago quarter. Copies of the latest annual report and the most recent quarterly report may be obtained at www.unionbank.com or at the Bank's Los Angeles office, located at 445 South Figueroa Street, Los Angeles, California 90071.

Initial Letter of Credit

The Initial Letter of Credit is being issued by the Credit Facility Provider pursuant to the terms of the Reimbursement Agreement dated as of June 1, 2012 (the "Reimbursement Agreement"), between the District and the Credit Facility Provider. The Initial Letter of Credit is an irrevocable transferable obligation of the Credit Facility Provider. The Initial Letter of Credit will be issued in an amount equal to the aggregate outstanding principal amount of the Bonds, plus at least 43 days' interest thereon at the rate of 12% per annum (the "Cap Interest Rate"). The Trustee, upon compliance with the terms of the Initial Letter of Credit, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Bonds when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 43 days' of accrued interest on the Bonds at the Cap Interest Rate (i) to pay interest on the Bonds when due, and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed, equal to the interest accrued, if any, on such Bonds. No drawing shall be made for Bank Bonds (as defined in the Reimbursement Agreement) or for Bonds bearing interest at a rate other than the Daily Rate or Weekly Rate or for Bonds owned by or on behalf of the District or the Authority.

The amount available under the Initial Letter of Credit will be automatically reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing to pay interest on the Bonds (an "Interest Drawing"), the amount available under the Initial Letter of Credit will be automatically reinstated effective on the fifth (5th) calendar day following the date such Interest Drawing is honored unless the Trustee shall have received notice from the Credit Facility Provider by the close of business on the fourth (4th) calendar day following the date of such Interest Drawing that the Credit Facility Provider has not been reimbursed for such Interest Drawing or any other Event of Default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and as a consequence thereof the Initial Letter of Credit will not be so reinstated in the amount of such Interest Drawing. With respect to a Liquidity Drawing, the Initial Letter of Credit will automatically be reduced by an amount equal to the amount of said drawing.

Upon a remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of such Liquidity Drawing, the Credit Facility Provider's obligation to honor drawings under the Initial Letter of Credit will be automatically reinstated in an amount set forth in a reinstatement certificate concurrently upon receipt by the Credit Facility Provider of such reinstatement certificate and the amount set forth therein.

The Initial Letter of Credit will terminate on the earliest of the Credit Facility Provider's close of business on (a) June 26, 2015; (b) the earlier of (i) the date which is one (1) Business Day following the date on which all of the Bonds have been converted to bear interest at a rate other than the Daily Rate or Weekly Rate (the "Conversion Date") or (ii) the date on which the Credit Facility Provider honors a full drawing under the Initial Letter of Credit on or prior to the date set forth in a certificate provided to the Credit Facility Provider following the Conversion Date; (c) the date of the Credit Facility Provider's receipt of a certificate from the Trustee specifying that no Bonds remain outstanding within the meaning of the Indenture, all Drawings (as defined in the Reimbursement Agreement) required to be made under the Indenture and available under the Initial Letter of Credit have been made and honored, or that a substitute liquidity facility has been issued in substitution for the Initial Letter of Credit pursuant to the Indenture; (d) the date on which an Acceleration Drawing or a Stated Maturity Drawing (each as defined in the Initial Letter of Credit) is honored by the Credit Facility Provider; or (e) the date which is fifteen (15) days following the date the Trustee receives a written notice from the Credit Facility Provider specifying the occurrence of an Event of Default under the Reimbursement Agreement and directing the Trustee to accelerate the Bonds or to cause a mandatory tender of the Bonds.

Reimbursement Agreement

If any of the following events shall occur, each such event shall be an "Event of Default":

(a) the District shall fail to pay (i) any principal of or interest on any Drawing (as defined in the Reimbursement Agreement), any Liquidity Advance (as defined in the Reimbursement Agreement) or Bank Bond as and when due under the Reimbursement Agreement, (ii) any principal of or interest on any Bonds for any reason other than the failure of the Credit Facility Provider to honor a properly presented and conforming Drawing under the Initial Letter of Credit as and when due or (iii) any other Obligations (as defined in the Reimbursement Agreement) (other than Reimbursement Obligations (as defined in the Reimbursement Agreement)) within five (5) calendar days after such amount was due; or

(b) any representation or warranty made by the District in the Reimbursement Agreement (or incorporated therein by reference) or in any of the other Related Documents (as defined in the Reimbursement Agreement) or in any certificate, document, instrument, opinion or financial or other statement contemplated by or made or delivered pursuant to or in connection with the Reimbursement Agreement or with any of the other Related Documents, shall prove to have been incorrect, incomplete or misleading in any material respect when made or deemed to have been made; or

(c) any "event of default" shall have occurred under any of the Related Documents (as defined respectively therein); or

(d) the District shall default in the due observance or performance of any of the specified covenants set forth in the Reimbursement Agreement; or

(e) default in the due observance or performance of any other term, covenant or agreement set forth in the Reimbursement Agreement and the continuance of such default for 30 days thereafter; or

(f) any material provision of the Reimbursement Agreement or any of the Related Documents shall at any time for any reason cease to be valid and binding on the District or any other Person (as defined in the Reimbursement Agreement) a party thereto or shall be declared to be null and void, or the District or any other governmental authority having jurisdiction shall contest any such provision, or the District or any agent or trustee on its behalf shall deny that it has any or further liability under the Reimbursement Agreement or any of the Related Documents to which it is a party; or

(g) the District or the Authority shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property (as defined in the Reimbursement Agreement), (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in paragraph (h) under this caption "Reimbursement Agreement"; or

(h) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the District or the Authority or any substantial part of any of its respective Property, or a proceeding described in clause (v) of paragraph (g) under this caption "Reimbursement Agreement" shall be instituted against the District and such appointment continues undischarged or any such proceeding continues undismissed or unstayed for a period of 30 or more days; or

(i) (i) a default shall occur under any evidence of Indebtedness (as defined in the Reimbursement Agreement), secured by or payable from the Net Revenues (as defined in the Reimbursement Agreement) on a basis that is senior to or on parity with the Installment Payments (as defined in the Reimbursement Agreement) and the Obligations due thereunder, issued, assumed, or guaranteed by the District under any indenture, agreement or other instrument under which the same may be issued and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness (whether or not such maturity is in fact accelerated); or (ii) any Indebtedness secured by or payable from the Net Revenues on a basis that is senior to or on parity with the Installment Payments and the Obligations due under the Reimbursement Agreement shall not be paid when and as due (whether by lapse of time, acceleration or otherwise); or

(ii) the District shall default in any payment of principal of or interest or any premium of any Indebtedness (other than that discussed in clause (i) of paragraph (i) under the caption "Reimbursement Agreement" above) in the aggregate in excess of $100,000 and such default shall continue beyond the expiration of the applicable grace period, if any, or (ii) the District shall fail to perform any other agreement, term or condition contained in any agreement, mortgage or other instrument under which any such obligation is created or secured, which results in the declaring due and payable Indebtedness (other than that discussed in clause (i) of paragraph (i) under this caption "Reimbursement Agreement") or causes Indebtedness (other than that discussed in clause (i) of paragraph (i) under this caption "Reimbursement Agreement") to become due and payable or which enables (or, with the giving of notice of lapse of time, or both would enable) the holder of Indebtedness (other than that discussed in clause (i) of paragraph (i) under this caption "Reimbursement Agreement") or any Person acting on such holder's behalf to accelerate the maturity thereof; or

(j) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes in an aggregate amount in excess of $5,000,000 shall be entered or filed against the District or against any of its Property and remain unvacated, unsatisfied, unbonded or unstayed for a period of 30 days; or

(k) (i) any of Fitch, Moody's or S&P shall downgrade their respective ratings of any long term unenhanced indebtedness of the District secured by the Net Revenues that ranks on a parity with the Installments Payments to below "BBB-" (or its equivalent) by Fitch or "BBB-" (or its equivalent) by S&P or "Baa3" (or its equivalent) by Moody's or (ii) any of Fitch, Moody's, or S&P shall suspend or withdraw their respective ratings of any long term, unenhanced Indebtedness of the District secured by the Net Revenues that ranks on a parity with the Installments Payments for credit related reasons; or

(l) any pledge or security interest created by the Indenture, the Master Agreement, the Installment Purchase Agreement or the Reimbursement Agreement to secure any amount due under any Bonds, the Reimbursement Agreement or the Fee Agreement (as defined in the Reimbursement Agreement) shall fail to be fully enforceable or fail to have the priority required under the Indenture, the Master Agreement, the Installment Purchase Agreement or the Reimbursement Agreement, in either case, by reason of a final, non appealable judgment of a court of competent jurisdiction; or

(m) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on any Indebtedness of the District secured by Net Revenues by any Governmental Authority with appropriate jurisdiction.

Remedies

Upon the occurrence of any Event of Default, the Credit Facility Provider may exercise any one or more of the following rights and remedies in addition to any other remedies in the Reimbursement Agreement or by law provided:

(a) declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the District, provided that upon the occurrence of an Event of Default under paragraph (g) or (h) under the caption "Reimbursement Agreement" above such acceleration shall automatically occur without notice;

(b) give notice of the occurrence of an Event of Default to the Trustee, directing the Trustee to accelerate or cause a mandatory tender of the Bonds, thereby causing the Initial Letter of Credit to expire fifteen (15) days thereafter;

(c) pursue any rights and remedies it may have under the Related Documents;

or

(d) pursue any other action available at law or in equity.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of October 2, 2002 (the "Joint Powers Agreement"), by and between the District and Jurupa Community Services District. The Joint Powers Agreement was entered into pursuant to the provisions of the California Government Code. The Authority is a separate entity constituting a public instrumentality of the State of California and was formed for the public purpose of assisting the District, Jurupa Community Services District or other local agencies in financing capital projects. The members of the Board of Directors of the District constitute the Directors of the Authority.

WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY

General

The Western Municipal Water District of Riverside County ("Western Municipal Water District" or the "District") was formed in 1954 under the Municipal Water District Act of 1911. The District is governed by a five person board of directors, elected to four year terms by the registered voters in the District's five election divisions.

The District's service area consists of a 527-square mile area of western Riverside County. Within the District's boundaries are the communities of Jurupa, Rubidoux, Riverside, Norco, Corona, Lake Elsinore, Canyon Lake, Temecula, and Murrieta.

Water System. The District acts as both a wholesale and retail water purveyor. The District purchases approximately 88% of the water it sells from the Metropolitan Water District of Southern California ("MWD") with the majority coming from northern California via the State Water Project, while the balance of MWD's supply to the District is supplied via the Colorado River Aqueduct.

The District provides wholesale water to the Box Springs Mutual Water Company, City of Corona, City of Norco, City of Riverside, Eagle Valley Mutual Water Company, Lee Lake Water District, Elsinore Valley Municipal Water District, and Rancho California Water District. The District also operates three separate retail water systems: 1) the District's main retail system, the Riverside system, includes the southeast portion of the City of Riverside and the surrounding unincorporated areas of Riverside County, 2) the Murrieta system, and 3) the Rainbow system. Together, these three systems total almost 621 miles of pipeline ranging in size from 4 inches to 60 inches in diameter, and have over 23,000 individual service connections. The District also owns and operates the Arlington Desalter which provides approximately 4,500 acre feet of high quality potable water to the City of Norco.

The District's Riverside retail service area covers over 70 square miles from the southeast portion of the City of Riverside, south of Lake Matthews, to the Gavilan Plateau. Treated water is supplied by MWD's Henry J. Mills Treatment Plant and by the City of Riverside, and distributed to 18 pressure zones.

The District's 6.5-square mile Murrieta service area is served by both local groundwater and imported water. The Rainbow service area is located at the border of Riverside and San Diego Counties and consists of approximately 41 connections. The Arlington Desalter pumps brackish (salty) groundwater from five wells located in the center median of Magnolia Avenue. The groundwater is treated via high-pressure reverse osmosis membranes before being pumped to the City of Norco.

Wastewater System. The District also provides wastewater collection and treatment to portions of its retail service area. Wastewater collected in the Woodcrest area and from the Meridian Business Center (formerly part of March Air Force Base) is treated at the District's Western Water Recycling Facility ("WWRF"). The District completed expansion during the spring of 2011 to increase capacity to three million gallons per day and add tertiary recycled water capability. Currently recycled water is provided to the Riverside National Cemetery, the General Archie J. Old Golf Course, and other non-potable customers.

The District is one of five members of the Western Riverside County Regional Wastewater Authority (WRCRWA), a joint powers authority that owns an eight million gallon per day treatment facility east of Norco, California. The District's staff operates the wastewater treatment plant under contract with the Authority. The eastern portion of the District's Riverside retail area is served by this plant.

The District also owns the wastewater collection system in its Murrieta service area; wastewater is treated by both Rancho California Water District and Eastern Municipal Water District. Contract wastewater operations for this small area are provided by Eastern Municipal Water District.

Population and Land Area

A summary of the population within the District as of January 1 for 1990, 1995, 2000, 2005, 2010 and 2011 is shown below. As of 2011, the District's 527-square mile service area covers approximately 7% of the County of Riverside's land area.

Year (as of January 1)	Population
1990	497,600
1995	516,252
2000	657,376
2005	797,902
2010	878,755
2011	894,100

Source: Western Municipal Water District.

Board of Directors

The District is governed by a five member Board of Directors. The current Directors are shown below.

Directors	Term Expires
Donald D. Galleano	January 2013
S.R. "Al" Lopez	January 2013
Brenda Dennstedt	January 2015
Thomas P. Evans	January 2015
Charles D. Field	January 2015

Each of the five Directors is elected to a four year term by the registered voters within the respective director's division within the District.

The following are biographies of the officers of the District:

Directors

President Donald D. Galleano, joined the Western Municipal Water District board in January 2005. Mr. Galleano represents Division 4. Division 4 includes the cities of Norco, Jurupa Valley, Eastvale, and the communities of Mira Loma, Glen Avon and Rubidoux. Mr. Galleano is the Western representative on committees at numerous agencies including the Santa Ana Watershed Project Authority (SAWPA), and an alternate representative for the Western Riverside County Regional Wastewater Authority (WRCRWA). Mr. Galleano is past president of the Jurupa Community Services District, the Western Riverside County Businessman's Association and the Jurupa Chamber of Commerce. He currently serves as a professional wine judge for international wine competitions and as chairman of the National Orange Show. Mr. Galleano is also a professional member of the American Society of Enology and Viticulture, the Los Angeles County Fair Wine Association. A third generation Southern California wine grower, Mr. Galleano is the owner of Galleano Winery in Mira Loma.

Vice-President S.R. "Al" Lopez, joined the Western Municipal Water District board in January 2001 representing Division 5. Division 5 includes the cities of Corona, Home Gardens, El Cerrito and a portion of Temescal. He also served as Western's representative on the Board of Directors for the Metropolitan Water District of Southern California. Mr. Lopez serves on Western Riverside Council of Governments (WRCOG), representing Western. Mr. Lopez represents Western on committees at several agencies including the Ad Hoc Committees at Rancho California Water District; West End; the Metropolitan Water District Coalition; and the Association of California Water Agencies (ACWA); past Riverside Local Agency Formation Commission (LAFCO) special district alternate; and the ACWA Joint Powers Insurance Authority/ACWA Utility Service Agency. Mr. Lopez also serves on the joint committee of the District and Elsinore Valley Municipal Water District. He also sits on the Western Community and Government Affairs Committee. Mr. Lopez was Mayor of the City of Corona in 1986 and again in 1990 and served on the City Council from 1982 to 1994. Other boards and commissions that Mr. Lopez has been a part of are the Riverside Transit Agency, Chairman of Riverside County Transportation Commission (RCTC), MetroLink Board and the South Coast Air Quality Management District Advisory Group. Additionally, Mr. Lopez has served on the Chino Basin Watermaster Board and the SAWPA. He has been involved with various civic and community organizations in the area. Mr. Lopez was honored in February 2005 by Congressman Ken Calvert with a Congressional Record Tribute for 25 years of Community Service. Mr. Lopez earned an Associate of Arts degree from Riverside Community College and received "The Watershed Certificate" award from Chapman University in Orange County. Mr. Lopez is the owner of SR Consulting specializing in business and governmental relations.

Secretary-Treasurer Thomas P. Evans, joined the Western Municipal Water District board in January 2007. Mr. Evans represents Division 2. Division 2 includes a portion of the city of Riverside located south of the 91 Freeway and all of March Air Reserve Base. Director Evans represents Western on the Metropolitan Water District of Southern California's Board where he is also Chairman of the Engineering and Operations Committee. Mr. Evans has 35 years of experience in water, electric and gas utility management. In 2005, he retired from the City of Riverside as interim City Manager. He also served the City of Riverside for four years as director of Public Utilities. Mr. Evans has served as a director for both the Southern California Public Power Agency and the Northern California Power Agency. He has served as a board member of the Greater Riverside Chambers of Commerce and past chair of the Leadership Steering Committee. Mr. Evans is a member of the Riverside East Rotary Club as well as a past board member with Smart Riverside. He's currently serving as a volunteer counselor for SCORE, an organization designed to provide counsel to small business owners. A graduate of the University of California, Davis with a Bachelors Degree in Mechanical Engineering, Mr. Evans also holds a Masters Degree in Business and Information Systems Management from Golden Gate University.

Director Brenda Dennstedt, began her term on the Western Municipal Water District board in January 2007. Ms. Dennstedt represents Division 3, which comprises Lake Mathews, City of Lake Elsinore, properties located south of Cajalco Road and west of the 215 Freeway, Temecula, Canyon Lake and Murrieta. As a board member with the former Murrieta County Water District, which was merged with the District in late 2005, Ms. Dennstedt heads up the District's Murrieta Advisory Committee. She represents the District on several committees including Eastern Municipal Water District, Elsinore Valley Municipal Water District and on the Ad Hoc Committee for Rancho California Water District. Director Dennstedt is also the alternate representative for the Western Riverside Council of Governments (WRCOG) and the Association of California Water Agencies Joint Powers Authority (ACWA/JPA). In addition, she serves as the District's alternate for the Western Riverside County Regional Wastewater Authority (WRCRWA) Board and March Joint Powers Authority Successor Agency Oversight Committee. Ms. Dennstedt also sits on the District's Community and Government Affairs Committee, and Finance Committee.

Director Charles D. Field, was voted to the Western Municipal Water District board in November 2006 and was seated in January 2007. Mr. Field, who is a retired judge of the Riverside County Superior Court, represents Division 1. Division 1 includes a portion of the city of Riverside located south of the Santa Ana River and north of the 91 Freeway to the San Bernardino County line. Mr. Field represents the District on the special committee with the city of Riverside and is the representative for the District with the Chino Desalter Authority and on the Chino Basin Watermaster Board. Mr. Field, who was born in San Francisco, grew up in the Stanford and Los Angeles regions of California as well as in Washington, D.C. He received a Bachelor of Arts degree from the University of California, Riverside in 1958, and a law degree from UCLA in 1963. From

1963 to 1990, Mr. Field practiced law with the Riverside firm, Best, Best & Krieger. He was a senior partner in the labor and employment section and served a full term as managing partner of the firm. Judge Field was appointed to the Riverside Superior Court in January 1990 by then Governor Deukmejian. He was first assigned to the Juvenile Court, then moved to the Civil Division where he served until his retirement in August 2004. Mr. Field was involved in a variety of organizations during his 40-plus year career including service on the UCR Alumni Association Board of Directors and the Board of Regents of the University of California. He was founding chair of the UCR Foundation and is past president of the Citizens University Committee. As an attorney, Mr. Field was a member of the Commission on Specialization in Labor Law of the California State Bar and was one of the founding members of the California Council of School Attorneys. He was a member of the Board of the Public Service Law Corp. of Riverside County and continues to serve as a board member of the Riverside County Law Library. Mr. Field served for more than 10 years on the board of directors of the Riverside Arts Foundation, where he was chair for two years, and has also served for many years on the Riverside Arts Council. For approximately 15 years, he was a member of the board of directors of The Press-Enterprise Company. Mr. Field remains active as a private mediator and in University of California activities and serves on the board of several community organizations.

Officers

As of February 1, 2012, the District's staff consisted of 118 full-time employees under the direction of General Manager John V. Rossi, who has served in that capacity since June 2004.

The current officers of the District are shown below.

John V. Rossi, General Manager

Jeffrey D. Sims, Deputy General Manager

Paul Rugge, Assistant General Manager/Chief Operating Officer

Rod LeMond, Assistant General Manager/Chief Financial Officer

Joseph J. Bernosky, Director of Engineering

Kevin C. Mascaro, Director of Finance

Jack S. Safely, Director of Water Resources

Management Staff

John V. Rossi, General Manager, is responsible for the planning, direction, and management of the water and wastewater activities and operations of the District, as well as Watermaster for the Santa Ana River and Western Judgment Adjudications. He has been employed by Western Municipal Water District for eight years. A Magna Cum Laude graduate from National University in San Diego with a Bachelors of Business Administration, Mr. Rossi is also a Certified Public Accountant. Prior to joining the District, Mr. Rossi was Chief Executive Officer for the Chino Basin Watermaster. He was previously employed at the Elsinore Valley Municipal Water District from 1990 to 2001, and served as General Manager. Mr. Rossi is currently the Second Vice-Chair for the WateReuse Association, Board member for the Association of California Water Agencies and the California Municipal Utilities Association, and the President of the California Utility Executives Management Foundation. He also served as an elected member of the Board of Directors for the Rancho California Water District.

Jeffrey D. Sims, Deputy General Manager, has more than twenty-seven years of civil engineering experience related to water and wastewater facility design and land development planning. He has been employed by Western Municipal Water District since 1994. Prior to joining the District, Mr. Sims worked for the consulting civil engineering firm of J. F. Davidson Associates, Inc. for ten years. Mr. Sims is a registered

civil engineer in the State of California with a Bachelor of Science in Civil Engineering from California Polytechnic State University at Pomona, a Masters in Public Administration from California State University at San Bernardino, and two years of coursework in law from California Southern Law School.

Paul Rugge, Assistant General Manager/Chief Operating Officer, has more than twenty years experience in the water and wastewater utility field. Mr. Rugge has been employed with the District for seven years, working for Cucamonga Valley Water District for the preceding fourteen years. Mr. Rugge has had extensive experience working in operations, engineering, and administration over the last twenty-six years, both in the public and private sector; dealing with a wide breadth of operational, regulatory, and administrative challenges. Mr. Rugge has an Associate of Science in Physical Science from Chaffy College in Rancho Cucamonga, a Bachelor of Science in Public Administration from University of La Verne in La Verne, and a Master of Science in Human Resources Management from Chapman University in Orange.

Rod LeMond, Assistant General Manager/Chief Financial Officer, was named Assistant General Manager/Chief Financial Officer of the District in 2008. He graduated with a Bachelor of Arts (accounting concentration) from California State University at Fullerton, received an MBA from California State University at San Bernardino, and is a Certified Public Accountant and a Certified Government Finance Manager. Prior to accepting his current position with the District, Mr. LeMond was a partner with McGladrey & Pullen, LLP where he had worked since 1977. His professional responsibilities included acting as the responsible partner for auditing public agencies for McGladrey & Pullen's western region.

Joseph J. Bernosky, Director of Engineering, brings more than twenty-five years of experience with drinking water and wastewater utilities, industry, and consulting firms to the District. Prior to joining the District in 2006, Mr. Bernosky performed work as a design engineer, project engineer/manager, and program manager. He has provided services to water utilities addressing water quality and distribution system issues, online water quality monitoring, water resources, residuals management, SDWA regulatory impacts, emergency response, and vulnerability assessments. He is also well versed in other environmental disciplines such as hazardous waste treatment/disposal, site remediation/restoration, air pollution control, and industrial hygiene. A former staff member at the American Water Works Association, he is a licensed professional engineer in California, Colorado, Oregon, Texas, and Washington. His text, Overview of Environmental Laws and Regulations: Navigating the Green Maze was published by the American Water Works Association in 2011.

Kevin C. Mascaro, Director of Finance, has over twenty-six years of experience in accounting, financing, and analysis. Mr. Mascaro joined the District eight years ago, working for consulting firms, not for profit agencies, and the County of San Bernardino during the preceding eighteen years. Mr. Mascaro has a Bachelor of Science in Managerial Accounting and an MBA from California State University at San Bernardino.

Jack S. Safely, Director of Water Resources, has over twenty-five years of experience in water system design and planning, project development and implementation, financial analysis and water resources management. Before joining the District in 2005, Mr. Safely spent fifteen years working for The Metropolitan Water District of Southern California and four years with the firm James M. Montgomery, Consulting Engineers. He is a registered civil engineer in the State of California and holds a Bachelor of Science in Civil Engineering from the California State Polytechnic University at Pomona.

Water System

The District supplies water to both wholesale and retail customers. The District purchases the majority of the water it sells from MWD, and the remainder comes from purchases from the City of Riverside, a desalter facility and from groundwater wells in its Murrieta service area. Approximately 20% of the supply purchased from MWD comes from the Colorado River Aqueduct and 80% from the State Water Project, which transports water from Northern California via the California Aqueduct. Approximately 73% of the water that the District sells is treated; the balance is untreated.

Sources of Water and Water Availability

Table 1 sets forth water sources in acre feet for the District's different types of water for Fiscal Years ending June 30, 2007 through 2011.

TABLE 1
WESTERN MUNICIPAL WATER DISTRICT
WATER SYSTEM
Water Sources in Acre Feet
Fiscal Years Ended June 30, 2007 through 2011

Fiscal Year	Treated	Purchased Untreated	Total	Wells[1]	Desalter[3]	Grand Total
2011	58,108	23,763	81,871	518	4,441	86,830
2010	58,810	22,333	81,143	785	5,100	87,028
2009	73,059	24,575	97,634	808	5,830	104,272
2008	80,100	25,845	105,945	395[2]	6,407	112,747
2007	87,377	31,070	118,447	2,302	5,267	126,016

Note: Fluctuation in the total water sales, and therefore in water purchases and production, is due to fluctuation in weather conditions from year-to-year and the variable use of local water sources by wholesale customers. In addition, the water source total for Fiscal Year 2011 reflects the result of aggressive water use efficiency messages to all customers by MWD, the District's wholesale customers, and the District itself.

(1) The District currently operates one extraction well for pumping groundwater in Murrieta.

(2) Well production in Fiscal Year 2008 decreased significantly due to operational constraints.

(3) The District owns five wells in the Arlington Basin.

Source: Western Municipal Water District.

Water Availability.

The District receives water from a number of sources, including groundwater, recycled water and imported water. The District's major source of water supply is from MWD. In addition to imported water, the District can produce annually up to 2,500 acre-feet of groundwater from wells in the Murrieta Basin to supply its Murrieta service area. Two conjunctive use accounts have also been established; one in the San Bernardino Basin Area that currently contains 6,000 acre-feet of stored water available to the District and a second account in the Elsinore Basin that currently contains approximately 5,000 acre-feet. The District also produces approximately 775 acre-feet of recycled water from its Western Water Recycling Facility. Rights to divert water from the Santa Ana River were recently obtained in partnership with the San Bernardino Valley Municipal Water District in the amount of 198,000 acre-feet per year. The District's 28% share of this right equates to 55,400 acre-feet of water during extremely wet hydrology. The average yield from this source is expected to be about 3,900 acre-feet per year, and would be a portion of the water transported by the Riverside-Corona Feeder described later in this section.

Developing Additional Sources of Water.

As the District's service area continues to grow, efforts to reduce regional dependence on imported water are at the forefront of District planning and construction activities. As previously described, with the exception of wells in the District's Murrieta service area, water from the Arlington Desalter and recycled water from the Western Water Recycling Facility, the source of the District's water is external. Unplanned outages at Metropolitan's filtration plants as well as the ever-present threat of regional drought conditions necessitates that the District pursue projects that will create clean, more reliable local water supplies and reduce its dependence on imported water.

Riverside-Corona Feeder. The District's proposed Riverside-Corona Feeder is a conjunctive-use project that could store up to 40,000 acre-feet of water conserved in wet years in San Bernardino County groundwater basins to communities throughout western Riverside County in dry water years and would provide

the District with access to its Santa Ana River entitlement described above. On March 30, 2009, President Obama signed HR146 into law, authorizing federal funds to construct the R-C Feeder. Originally sponsored by Congressman Ken Calvert and Senator Diane Feinstein, the Riverside-Corona Feeder Water Supply Act authorizes $26 million in federal funding for the Bureau of Reclamation to design, plan and construct a series of groundwater wells, pumps and pipelines that will manage groundwater levels and deliver pumped groundwater supply to water users. The R-C Feeder is not only designed as a surplus water storage project, but as a buffer in the event of catastrophic failure of the imported supply systems from the Northern Bay-Delta or the Colorado River. It would also serve as part of the solution to cleaning up groundwater basins by removing contaminants as a portion of the wells in the project could be placed within plumes of volatile organic compounds (VOCs) and perchlorate. The District does not know when the Riverside-Corona Feeder will be operational and has not included water from this project in any of its budgets or estimates.

Water Use Efficiency. Water use efficiency and demand management remains at the core of the District's strategy to expand water supplies. In addition to a recently adopted water budget-based rate structure in the retail service area, the District has identified a variety of incentive-based customer programs designed to increase the efficient use of water. The District's portfolio of customer support program augments the regional rebate programs administered by The Metropolitan Water District. Western's programs focus primarily on reducing outdoor water waste through turf replacement incentives, on-bill financing for "Smart" irrigation technology, free landscape irrigation audits, and the distribution of high-efficiency sprinkler nozzles through FreeSprinklerNozzles.com. Western also supports and encourages its wholesale agencies to develop locally cost-effective and unique programs for their direct customers.

The District also develops educational programs, hosts water-wise seminars, distributes helpful landscaping literature, and maintains an award-winning water conservation demonstration garden. All activities are structured in accordance with the District's Water Use Efficiency Master Plan (WUEMP). Adopted by the Board in December 2008, the WUEMP is a comprehensive water use efficiency plan incorporating objectives, policies and programs designed to promote innovative water-saving technologies and practices, as well as proven and cost-effective water conservation measures for use by the District's wholesale agencies and within the District's retail service area. Western plans to update the WUEMP in FY 2013 to further identify new opportunities and technologies to encourage customer water use efficiency and thus increase reliability.

Groundwater Desalination. The District is expanding groundwater desalters in the Chino Groundwater Basin. Integrating the desalters into the District's system will improve its resource portfolio and provide additional supply reliability and operational flexibility as part of its Integrated Regional Water Management Plan.

Arlington Desalter – The Arlington Desalter is the only water treatment facility owned by the District. It is a $33 million, 6.76 million gallons per day reverse osmosis water treatment plant that removes millions of pounds of salts from brackish groundwater in the Arlington Basin.

Chino Desalter Phase 3 Expansion – The District joined the Chino Basin Desalter Authority (CDA) in November 2008. Working in partnership with two CDA partners, the City of Ontario and Jurupa Community Services District, the District is increasing water supplies from the Chino Basin by expanding the capacity of the Chino Desalters from 10.0 MGD to 20.0 MGD, providing the District with approximately 3,500 acre-feet annually. The Chino Desalter Expansion has received $19.3 million in grant funding to date, with an additional $57 million expected to be awarded. As expansion partners, the District, the City of Ontario and Jurupa Community Services District will be responsible for funding the remaining costs of the $112 million project.

Inter-Agency Delivery Pact. In a move to reduce regional dependence on imported water supplies while maximizing the use of local water sources, Western Municipal Water District and the City of Riverside signed a Cooperative Wheeling Agreement in March 2009. The pact provides up to 6,000 acre-feet of much needed groundwater that is exchanged for imported water with EVMWD, which amounts to roughly 20% of the District's total retail service area demand.

Expansion of the Western Water Recycling Facility. The District's Western Water Recycling Facility described earlier was recently expanded and upgraded to 3.0 MGD tertiary treatment. This project allows the District to produce up to 3,300 acre-feet of recycled water per year for irrigation purposes and therefore reduce its reliance on imported water. This expansion project is discussed in greater detail under the Wastewater System section.

Water Service Customer Base

The District's water customer base consists of wholesale customers and retail customers. Wholesale customers consist of other water agencies and cities that purchase water from the District and in turn sell it to their customers. Retail customers consist of residential, commercial, industrial, and agricultural water users that receive their water directly from the District's distribution system and are billed on a monthly basis by the District.

Wholesale Customers. Wholesale customers currently make up approximately 70% of the District's total water sales by acre feet, and 66% of the total water sales revenue. The eight wholesale customers that buy water from the District are the Box Springs Mutual Water Company, the City of Corona, the City of Riverside, the Eagle Valley Mutual Water Company, the Elsinore Valley Municipal Water District, the Rancho California Water District, the City of Norco and the Lee Lake Water District. Table 2 shows water sales, in acre-feet, to the District's wholesale and retail water customers for Fiscal Years ended June 30, 2007 through 2011, as well as water sales in dollars for Fiscal Year 2011.

TABLE 2
WESTERN MUNICIPAL WATER DISTRICT
WATER SYSTEM
Wholesale and Retail Water Sales
Fiscal Years Ended June 30, 2007 through 2011

Customer	FY 2007 (Acre Feet)	FY 2008 (Acre Feet)	FY 2009 (Acre Feet)	FY 2010 (Acre Feet)	FY 2011 (Acre Feet)	Sales (in Thousands)
City of Corona	23,458	19,962	17,975	16,436	13,787	$ 7,205
Rancho California Water District	30,734	25,779	24,771	19,830	17,492	$ 8,820
Elsinore Valley Municipal Water Dist.	23,375	22,630	20,011	17,079	18,909	$11,857
City of Norco	6,421	6,425	6,798	6,120	6,033	$ 4,140
Eagle Valley Mutual Water Company	1,054	759	665	541	359	$ 1,960
Lee Lake Water District	3,843	3,647	3,430	2,980	2,740	$ 1,970
City of Riverside	2,125	1,708	43	6	5	$ 4
Box Springs Mutual Water Company	102	102	70	86	96	$ 69
Total Wholesale Customers	91,111	81,012	73,763	63,078	59,421	$36,025
Total Retail Customers	34,905	31,735	30,509	23,950	27,409	$20,449
Total Water Sales[(1)]	126,016	112,747	104,272	87,028	86,830	$56,474

(1) Variances in the total water sales is due to fluctuation in weather conditions from year-to-year and the variable use of local water sources by wholesale customers. In addition, lower Fiscal Year 2011 sales reflect the result of aggressive conservation messages to all customers by MWD, the District's wholesale customers, and the District itself.

Source: Western Municipal Water District.

Retail Customers. The District serves water directly to more than 23,000 retail customers located in the areas of El Sobrante, Eagle Valley, Temescal Creek, Woodcrest, Lake Matthews, March Air Reserve Base, Rainbow Canyon, and portions of the Cities of Riverside and Murrieta. The District's retail customers currently makeup approximately 30% of the total water sales by acre foot, and 34% of the total water sales revenue.

The retail water system encompasses almost 621 miles of pipeline; the pipes range in diameter from 4 to 60 inches. The District operates 128 pumps, with a total connected horsepower of approximately 18,455. The water system includes 38 water storage tanks with a capacity of over 94 million gallons. Table 3 shows the total number of the District's Retail Customers and Use Category from Fiscal Year 2006-07 through Fiscal Year 2010-11.

TABLE 3
WESTERN MUNICIPAL WATER DISTRICT
WATER SYSTEM
Number of Retail Customers (by Category)
Fiscal Years Ended June 30, 2007 through 2011

Fiscal Year	Residential	Commercial	Agricultural	Landscape	Total Customers
2007	21,361	902	197	515	22,975
2008	21,447	921	145	570	23,083
2009	21,563	975	145	593	23,276
2010	21,579	986	146	597	23,308
2011	21,647	973	142	591	23,353

Source: Western Municipal Water District.

Water Rates and Charges.

The District has in place schedules for water rates, pumping charges, and monthly service charges. Schedules are also in place for deposit requirements, service installation charges, distribution system fees and added facilities charges.

The District's retail water rates are comprised of several components. For the Riverside Service Area, where the majority of the District's retail water customers are located, there are four components: a commodity charge, pumping charge and water reliability charge (all three based on the amount of water delivered), and a fixed system charge. These charges are billed monthly and are due in 20 days. A late fee is assessed 16 days after the due date, and water service is disconnected 23 days after the due date.

On July 13, 2011 (July 6, 2011 for the Murrieta Service Area), after a series of public meetings, workshops and outreach campaign, the Board of Directors approved a Water Budget-Based Rate Structure, which became effective on October 1, 2011. The Water Budget-Based Rate Structure has no impact on the existing fixed system charges or the pumping charge. These charges will remain unchanged. The variable commodity charge became the Water Budget-Based Rate Structure. The Water Budget-Based Rate Structure is designed to encourage efficient water use by providing each customer with an allocation of a reasonable amount of water for efficient indoor and outdoor water use based on that customer's particular needs. This allocation is referred to as a "water budget." Customers whose water use remains within their water budgets would be billed at the lowest rates. Customers who exceed their water budgets by inefficient use of water would be billed at higher rates for the amount of water they use above their water budget. The intent of the rate structure is to proportionately allocate the cost of providing water service, encourage efficient water use, and reduce water waste.

On May 19, 2010 the Board of Directors approved "pass through" provisions as allowed by Section 53756 of the State of California Government Code that will allow the District to annually adjust rates to its retail water customers without conducting a public hearing when passing through 1) rate increases from its water providers, 2) rate increases from its energy providers, and 3) increases in operations and maintenance costs. These pass through provisions were accompanied by not-to-exceed rate increase maximums of 20%, 12%, and 9.5%, respectively from fiscal years 2012 through 2015.

On May 19, 2010, the Board of Directors also approved a "Water Reliability Charge" for the Riverside Service Area starting at $0.07 per hundred cubic feet ("HCF") of water sold to retail customers that will

automatically increase each January 1 by $0.07 through January 1, 2015. The Water Reliability Charge is a proactive approach to increasing system reliability and responsible water supply management. This charge will reduce the District's dependence on property tax revenues, with generated revenue dedicated to funding projects related to increasing water system capacity and improving the long-term sustainability of the water supply.

Wholesale Water Rates. The District passes through to its wholesale customers MWD water rates. See "The Metropolitan Water District of Southern California" below. The District adds a $18.45 per acre-foot service fee to those rates ($12.30 per acre foot prior to October 1, 2011) and an additional $3.50 per acre-foot maintenance fee for all connections to the District's gravity line. The water sales revenue from these two fees for Fiscal Year 2010-11 totaled about $744,000.

Imported Water Supply. During Fiscal Year 2010-11 Western purchased 81,871 acre feet of imported water from MWD for sale to eight wholesale customers and approximately 23,000 retail customers. Although, at present, the District is able to import sufficient water from MWD to meet demand, recent developments related to MWD's access to water from the State Water Project (the "SWP") could adversely impact the District's ability to import water from MWD.

The Metropolitan Water District of Southern California. MWD is a metropolitan water district created in 1928 by vote of the electorates of 11 Southern California cities. MWD's primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member public agencies. MWD operates under the authority of the Metropolitan Water District Act, California Statutes 1927, Chapter 429, as reenacted in 1969 as Chapter 209 (as amended, the "MWD Act") and is comprised of 26 member public agencies, including the District. Member agencies request water from MWD at various delivery points within MWD's system and pay for such water at uniform rates established by the MWD Board of Directors for each class of service. MWD's service area covers approximately 5,200 square miles and MWD provides between 40% and 60% of the water used within its service area in any year.

Water rates are established by the MWD Board of Directors and are not subject to regulation by the Public Utilities Commission of California or by any other local, state or federal agency. MWD's water is a supplementary source of water for its member agencies. Under 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 SWP.

MWD's current rate structure for 2012 is as follows:

TABLE 4
METROPOLITAN WATER DISTRICT
WATER RATES AND CHARGES

	Effective 1/1/2012
Tier 1 Supply Rate (per acre-foot)	$ 106
Tier 2 Supply Rate (per acre-foot)	$ 290
Delta Supply Surcharge (per acre-foot)	$ 58
System Access Rate (per acre-foot)	$ 217
Water Stewardship Rate (per acre-foot)	$ 43
System Power Rate (per acre-foot)	$ 136
Full Service Untreated Volumetric Rate	
Tier 1 (per acre-foot)	$ 560
Tier 2 (per acre-foot)	$ 686
Replenishment Water Rate; untreated (per acre-foot)	$ 442
Interim Agricultural Water Program Rate; untreated (per acre-foot)	$ 537
Treatment Surcharge (per acre-foot)	$ 234
Full Service Treated Volumetric Rate	
Tier 1 (per acre-foot)	$ 794
Tier 2 (per acre-foot)	$ 920
Treated Replenishment Water Rate (per acre-foot)	$ 651
Treated Interim Agricultural Water Program Rate (per acre-foot)	$ 765
Readiness-to-Serve Charge (in millions)	
Note: The Readiness-to-Serve Charge is allocated based on each MWD member agency's ten-year rolling average of firm water demands.	$ 146
Capacity Charge (per cubic foot per second)	$7,400

Tier 1 Supply Rate – recovers the cost of maintaining a reliable amount of supply.

Tier 2 Supply Rate – set at MWD's cost of developing additional supply to encourage efficient use of local resources.

Delta Supply Surcharge – recovers the cost of additional water transfers necessary as a result of pumping restrictions in the Sacramento-San Joaquin River Delta.

System Access Rate – recovers a portion of the costs associated with the delivery of supplies.

Water Stewardship Rate – recovers the cost of MWD's financial commitment to conservation, water recycling, groundwater clean-up and other local resource management programs.

System Power Rate – recovers MWD's power costs for pumping supplies to Southern California.

Full Service Volumetric Rate – is the sum of the Tier 1 Supply Rate plus the Delta Supply Surcharge, the System Access Rate, the Water Stewardship Rate, and the System Power Rate. The treated volumetric rate also adds the Treatment Surcharge. The Tier 2 volumetric rate substitutes the Tier 1 Supply Rate for the Tier 2 Supply Rate and removes the Delta Supply Surcharge.

Replenishment Water Rate – a discounted rate for surplus system supplies available for the purpose of replenishing local storage.

Treated Replenishment Water Rate – a discounted rate for surplus system supplies available for the purpose of replenishing local storage.

Interim Agricultural Water Program Rate – discounted rate for surplus system supplies available for the purpose of growing agricultural, horticultural or floricultural products.

Treatment Surcharge – recovers the costs of treating imported water.

Readiness-to-Service Charge – a fixed charge that recovers the cost of the portion of system capacity that is on standby to provide emergency service and operational flexibility.

Capacity Charge – the capacity charge recovers the cost of providing peak capacity within the distribution system.

The most recent major addition to MWD's water delivery system is Diamond Valley Lake, a man-made reservoir located southwest of the City of Hemet, California, within the Domenigoni and Diamond Valleys, approximately 25 miles from the District. Excavation at the project site began in May 1995. The Diamond Valley Lake covers approximately 4,410 acres and is designed to hold approximately 810,000 acre-feet or 265 billion gallons of water. Associated hydraulic structures consist of an inlet-outlet tower, pump plant, pressure control facility, connecting tunnels and a forebay. Imported water is delivered to Diamond Valley Lake during surplus periods. As of May 22, 2012, approximately 740,000 acre-feet of water was in storage at Diamond Valley Lake.

Lake Skinner, a MWD facility located five miles from the District, provides additional stored surface water within Southern California. Lake Skinner was completed in April 1973 with a full reservoir area of 1,140 acres. Total reservoir capacity is approximately 44,000 acre-feet of which approximately 36,000 acre feet was filled as of May 22, 2012. This MWD facility is a storage and regulating reservoir for the SWP and Colorado River water imported to Southern California for use in southern Riverside and San Diego Counties.

Lake Mathews, located within the District's service area, is the terminal storage reservoir of the Colorado River Aqueduct system. Lake Mathews storage capacity is 182,000 acre-feet of water. Storage in the lake as of May 22, 2012, was approximately 129,000 acre-feet. Water stored in Lake Mathews currently supplies the northwestern portion of the District.

Collectively, Diamond Valley Lake, Lake Skinner, Lake Mathews, and other storage reservoirs available to MWD are capable of providing Southern California's water needs for approximately six months after a major earthquake that severs both the SWP and Colorado River Aqueduct systems (assuming that there has been no impairment of MWD's internal distribution network and 25% reduction in water demands).

No assurance can be made that MWD will continue to supply water to the District in the amounts sufficient to meet the needs of the District. Operating and other financial information with respect to MWD is included in certain publicly available disclosure documents prepared by MWD. In addition, MWD has 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 material events as defined under Rule 15c2-12 of the Exchange Act ("Rule 15c2-12") and annual audited financial statements with certain information repositories. THE INFORMATION RELATING TO MWD IN THIS SECTION HAS BEEN PREPARED FROM THESE AND OTHER PUBLICLY AVAILABLE MATERIALS PROVIDED BY MWD. NEITHER THE DISTRICT NOR THE UNDERWRITER HAS CONFIRMED THE ACCURACY OF SUCH INFORMATION AND MWD HAS NOT REVIEWED THE INFORMATION CONTAINED HEREIN.

Retail Water Rates

The majority of the District's retail population is located within its Riverside Service Area, which is divided into two areas: the South Added Facilities Area and the North Added Facilities Area. The District

implemented an 8.6% rate increase for the average residential water customer in the Riverside Service Area on January 1, 2012.

Water Rate Schedule. The District's treated water rates are per hundred cubic feet ("HCF") of water sold to retail customers. A hundred cubic feet of water equals 748 gallons. Residential customers' water budgets are calculated based on each customer's landscaped area, daily localized weather data and the number of residents in each home. Residential water budgets would vary from month to month based upon the weather. Dedicated landscape irrigation customers' water budgets are calculated based on landscape area and daily localized weather data. Commercial customers' budgets are calculated based on a three-year average of the customers' monthly use. For District Service Areas not utilizing the Water Budget-Based Rate Structure, the rates vary depending on the customer's location and pressure zone. The commodity rates for treated water are as follows:

		Effective Jan 1, 2012
Service Area	**Water Charge**	**$/HCF**
Riverside - Treated	Tier 1	$1.902
	Tier 2	$2.035
	Tier 3	$2.621
	Tier 4	$4.081
	Tier 5	$4.081
	The Tier 5 rate will be $4.971 per HCF effective Oct. 1, 2012.	
Riverside - Treated Interim Agriculture [(1)]		$1.110
March East		$3.820
Murrieta	Tier 1	$1.973
	Tier 2	$2.779
	Tier 3	$3.979
	Tier 4	$4.419
	Tier 5	$5.299
Rainbow		$2.239

(1) The interim agricultural rate applies to customers with treated water available to their property that are qualified agricultural users per Ordinance 372.

Pumping Charge Schedule: The pumping charge is in addition to the variable water rate and is based on the pressure zone (PZ) of the service address meter. Pressure zones have been grouped into Power Zones. Pumping charges are applicable to Riverside and Murrieta Service Areas only.

Power Zone[(1)]	**Per HCF**
#1	$0.105
#2	$0.156
#3	$0.143
#4	$0.351
#5	$0.612
#6	$0.677
#8	$0.196

(1) Power Zone 7 is currently not being used to pump water at this time.

Water Reliability Charge Schedule. The water reliability charge is in addition to the commodity water rate and pumping charge. It is currently at $0.21 per HCF and will automatically increase each January 1 by $0.07 through January 1, 2015. Revenue from the water reliability charge will be dedicated to fund projects that will increase system reliability and develop local water sources. Annual revenue from this charge is projected to

grow from $742,000 in Fiscal Year 2011 to $3.7 million by Fiscal Year 2015. This charge applies to full service water customers in the Riverside Service Area.

Effective Date	Per HCF
January 1, 2012	$0.21
January 1, 2013	$0.28
January 1, 2014	$0.35
January 1, 2015	$0.42

Fixed System Charge Schedule. The District collects a monthly fixed system charge from all customers with permanent meter installations. The District's monthly fixed system charge is based on meter size and not on water usage. The charges for full service water customers in the Riverside Service Area are as follows:

Meter Size (in Inches)	Monthly Charge
¾	$22.38
1	36.20
1½	72.41
2	89.65
3	108.61
4	125.82
6	143.08
8	162.03
10	179.25
12	198.20

Retail Water Account Write-Offs and Inactive Accounts. For Fiscal Year 2011, retail water account write-offs were less than 1% of revenues. Inactive accounts equaled 4% of the total number of accounts.

Retail Water Service (other fees and charges)

Deposits. All customers requesting service who have not established their credit worthiness must pay a cash deposit equaling two times the average water bill based on the last twelve months of usage at the service address, or $100, whichever is higher. Deposits are refunded after the completion of one year of billings with no delinquent charges.

Service Installation Charges. The District's service installation charges for ¾-inch and 1-inch meters are $2,440 and $2,485 respectively. These charges are for the cost of the meter plus a hot-tap connection charge. The service installation charge for 1½-inch through 12-inch meters is an amount equal to the estimated installation cost at the time of installation.

Distribution System Fee. All applicants for new service connections must pay a distribution system fee prior to connection to the water system. The fee is not collected for property that has already paid a distribution system fee or is part of a participation agreement. The fee for a residential customer is $2,700 per acre in the North Added Facilities Area and $1,421 per acre in the South Added Facilities Area. The minimum fee for parcels which are less than ½ acre is the fee for a ½ acre parcel and the maximum fee for parcels which are larger than 2½ acres is the fee for a 2½ acre parcel.

Added Facilities Charge. Unless waived by an agreement signed by the District's General Manager, in which the applicant agrees to provide facilities equal to or in excess of the value of the Added Facilities Charge, all applicants for service connection in the North and South Added Facilities Areas must pay an Added Facilities Charge as shown in the schedules below:

North Added Facilities Area

Service Type	Charge
Single Family Residence – ¾"	$ 3,048
Single Family Residence – 1"	5,029
Multi-Family Residence	2,540
Apartments/Mobile Homes	2,032
Industrial, Commercial, Agricultural, Landscaping – ¾"	3,048
Industrial, Commercial, Agricultural, Landscaping – 1"	5,029

South Added Facilities Area
(1" or smaller meters)

Zone	Charge
1783	$ 8,571
2116	8,860
2320	9,595
2450	10,298

Added Facilities for Murrieta Area
(Combine Capacity and Acreage for Total Fee)

Capacity Based on Meter Size:	Multiplier	CFD 88-1*	Non-CFD
3/4"	1.00	$1,932	$ 5,882
1"	1.60	$3,092	$ 9,703
1 1/2"	4.00	$7,728	$23,528
2"	5.00	$9,660	$29,410

Acreage Fee Per Parcel (Gross Acres): $2,045

* Community Facilities District No. 88-1 ("CFD 88-1") was formed by the District to finance water-related infrastructure and as a result, lower fees are charged within CFD 88-1.

Standby Charges. The District collects water and sewer standby charges from owners of parcels within the District's Murrieta service area. The standby charge assessed is $21 per acre (and fractions thereof) for water and the same amount for sewer, and is collected on the County property tax bill. Combined collections currently total approximately $260,000 per year.

Wastewater System

The District 1) owns and operates a wastewater treatment plant and conveyance system, 2) operates and maintains a second wastewater treatment plant, 3) owns and maintains a conveyance system in the Murrieta area, and 4) operates and maintains a non-reclaimable wastewater disposal system. Each of these operations is discussed below.

The District has obtained all necessary permits to operate the wastewater system and, to the best of its knowledge, is in compliance with such permits. There are no pending or threatened regulatory actions that would in any way prohibit or significantly impair the District's ability to provide wastewater service.

Western Water Recycling Facility

The District owns and operates the Western Water Recycling Facility, providing wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the City of Riverside. The District acquired the facility from the Air Force in October 2002 as a result of the Defense Base Closure and Realignment Act of 1990, and immediately began a significant upgrade and expansion project to the current plant capacity of 1.0 million gallons per day (MGD). Current wastewater inflow is approximately 850,000 gallons per day. Completed in mid 2011, a Phase 2 project further expanded and upgraded the plant to 3.0 MGD and now provides tertiary-treated recycled water. This $45 million project will allow the District to accommodate the developing areas in Woodcrest and Cajalco, as well as the Meridian Business Center.

The District projects that area growth will ultimately require the treatment plant to accommodate 5.0 MGD. Currently, treated water from the plant is reclaimed for irrigation and used at the Riverside National Cemetery and the General Old Golf Course. With the new treatment capabilities, tertiary treated water is also used for irrigation at selected locations in the District's Riverside service area, including schools, commercial nurseries, and local agriculture. Future efforts will expand the non-potable/recycled distribution system to reach parks, churches and medians.

Western Riverside County Regional Wastewater Authority ("WRCRWA") Wastewater Treatment Plant

WRCRWA was formed in 1992 as a Joint Exercise of Powers Agency to construct, maintain, operate and manage facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater and the use of reclaimed wastewater for any beneficial purpose. The District is one of the five member agencies comprising WRCRWA. Since 1998, the District has been the contract operator of the WRCRWA wastewater treatment plant located near the Santa Ana River west of the City of Norco. The operations contract with WRCRWA is ongoing, yet can be cancelled by either party with a 60-day notice. The treatment plant has a total capacity of 8.0 MGD, and currently processes an average of 6.5 MGD from residential and commercial wastewater customers, some of which are in the District's retail service area (see Table 5). Of the total plant capacity of 8.0 MGD, the District owns capacity rights of 1.93 MGD. Wastewater flows from District customers is approximately 0.8 MGD, or 42% of the District's capacity right.

Murrieta Service Area

The Murrieta service area provides wastewater collection and transmission services to approximately 1,900 customers surrounding the downtown area of the City of Murrieta. Treatment of approximately 600,000 gallons per day of wastewater from the Murrieta area is provided under contract by Rancho California Water District ("RCWD"), with Eastern Municipal Water District ("EMWD") providing treatment services to approximately 65 Murrieta commercial customers. RCWD and EMWD invoice the District monthly for services. The District passes through these charges, plus an administrative and maintenance charge, to the affected customers.

Wastewater treatment within the Murrieta Service area is provided by Rancho California Water District's (RCWD) Santa Rosa Wastewater Reclamation Facility (Santa Rosa Facility). Besides the District's Murrieta Service Area, the Santa Rosa Facility serves the wastewater customers of RCWD and Elsinore Valley Municipal Water District. RCWD has determined that the Santa Rosa Facility will need improvements/enhancements in order to meet anticipated demand. The District has been approached by RCWD to discuss its willingness to share in paying for a portion of the proposed costs and to establish the District's obligations with respect to cost overruns in connection with past construction of the Santa Rosa Facility. The District's share in these costs could result in a District contribution of up to approximately $15 million payable over several years. The District has not determined whether it will participate in improving the Santa Rosa Plant and is evaluating its obligations with respect to cost overruns. Any obligations incurred by the District with respect to cost overruns or the expansion of the Santa Rosa Facility would be paid for with connection fees and

increased rates from within the Murrieta Service Area and by using certain reserves and other amounts attributable to the Santa Rosa Facility.

Wastewater Customer Base

Table 5 sets forth the number of the District's retail customers served by the District, WRCRWA, and RCWD/EMWD treatment plants described above for Fiscal Years 2007 through 2011.

TABLE 5
WESTERN MUNICIPAL WATER DISTRICT
WASTEWATER SYSTEM
Retail Customers
Fiscal Years Ended June 30, 2007 through 2011

Treatment System	2007	2008	2009	2010	2011
Western WRF	1,407	1,468	1,497	1,485	1,506
WRCRWA	4,145	4,286	4,427	4,472	4,587
Murrieta	1,942	1,984	2,011	2,011	2,056
Total	7,494	7,738	7,935	7,968	8,149

Source: Western Municipal Water District.

Wastewater Rates and Charges

The District bills its retail wastewater customers monthly, if the customer also receives water service from the District. If the wastewater customer does not receive water service, the annual wastewater charges are placed on the County property tax rolls. Account write-offs for wastewater charges were less than 1% for Fiscal Year 2010-11. Table 6 sets forth the District's retail wastewater service charges. These rates were approved by the District's Board of Directors following a public hearing on August 17, 2011, with an effective date of November 1, 2011, and represent a 9% rate increase for the majority of the retail wastewater customers. One equivalent dwelling unit (EDU) is equal to the average wastewater discharged by a single family residence. Charges for apartment and mobile homes are 70% of the charge for single family residences.

TABLE 6
WESTERN MUNICIPAL WATER DISTRICT
WASTEWATER SYSTEM
Retail Wastewater Service Charges

Treatment System	Per EDU Per Month	Per 1,000 Gallons
March East (customers east of 215 Freeway)	$82.73	$ 9.71
March West (customers west of 215 Freeway)	54.81	6.44
March other (Air Force Village West customers - treatment only)	37.75	4.43
WRCRWA	32.91*	3.86
Murrieta (treatment provided by Rancho California Water District)	38.58	4.53
Murrieta (treatment provided by Eastern Municipal Water District)	32.36	3.80

* An additional $5.00 per EDU per month is charged for housing tracts where the District provides bi-annual inspection and cleaning services for private sewer laterals.

Source: Western Municipal Water District.

Wastewater Connection Fees

With the exception of the Murrieta service area, the District does not have an adopted connection fee for domestic sewer service. Fees are based on location and are calculated on a case by case basis. The connection fee for the Murrieta service area is $6,511 (if treatment is provided by Rancho California Water District) and $5,756 (if treatment is provided by Eastern Municipal Water District). Connection fees for the Murrieta service area are either paid directly to the agency providing the treatment, or are collected by the District and forwarded to the appropriate agency. These Murrieta Service Area connection fees are not considered Revenues.

Brine Line

The Brine Line (also known as the Santa Ana Regional Interceptor) is an industrial wastewater disposal system owned by the Santa Ana Watershed Project Authority (SAWPA). The Brine Line is designed to convey 30 MGD of non-reclaimable wastewater from the upper Santa Ana River basin area to the ocean for disposal after treatment by the Orange County Sanitation District. The non-reclaimable wastewater consists of desalter brine concentrate and industrial wastewater. The District is a member agency of SAWPA and is contracted by SAWPA for administration, operation, and maintenance of the Brine Line for about 96% of the 73 mile pipeline system. The remaining 4% is outside of the District's boundaries and is maintained by other agencies. As part of the contracted services with SAWPA, the District operates a trucked wastewater disposal station in the City of Corona that flows into the Brine Line.

Table 7 sets forth the District's wholesale customers who have direct connections to the SARI System, along with their usage in millions of gallons (MG), for Fiscal Years 2007 through 2011.

TABLE 7
WESTERN MUNICIPAL WATER DISTRICT
WASTEWATER SYSTEM
Wholesale Customers
Fiscal Years Ended June 30, 2007 through 2011
Usage In Million Gallons

Brine Line Customer	2007	2008	2009	2010	2011
California Rehab Center	306.00	287.42	227.25	228.96	228.74
City of Corona	368.66	550.03	660.67	604.77	593.96
Dart Container Corporation	20.43	20.62	20.41	16.70	12.19
DFA (Golden Cheese prior to FY09)	428.25	160.02[(1)]	20.95	11.69	14.29
Giuliano & Sons Briners					0.97
Wellington Foods (International Foods prior to FY10)	1.83	3.00	0.27	0.16	2.06
Jurupa Community Services District	847.45	360.81[(2)]	408.35	426.67	516.12
Rubidoux Community Services District	1.54	1.22	3.60	1.51	2.5
State of California	41.15	40.27	35.76	39.23	49.56
WCAC Operating Company	32.67	25.63	27.02	16.67	11.80
Total	2,047.98	1,449.02	1,404.28	1,346.36	1,432.19

(1) The Golden Cheese Plant closed in Fiscal Year 2008.
(2) Jurupa Community Services District completed its wastewater system connection to the WRCRWA plant in Fiscal Year 2008 resulting in a reduction of its need to utilize the Brine Line.
Source: Western Municipal Water District.

Wastewater Rates and Charges

For direct industrial wastewater customers, the monthly charge is $966 per million gallons of discharge plus a fixed charge of $11,485 per MGD of treatment and pipeline capacity owned. In Fiscal Year 2011, the District collected $5.3 million in revenue from industrial wastewater customers.

Historical Operating Results

Table 8 sets forth a summary of audited historical operating results for the District for the Fiscal Years ended June 30, 2007 through June 30, 2011.

TABLE 8
WESTERN MUNICIPAL WATER DISTRICT
Historical Operating Results
Fiscal Years Ended June 30, 2007 through 2011

	FY2007	FY2008	FY2009	FY2010	FY2011
GROSS REVENUE					
Wholesale Water Sales	$ 36,628,729	$ 37,438,026	$36,829,603	$ 35,577,103	$ 36,025,156
Retail Water Sales	16,563,830	16,150,407	18,838,201	20,646,665	20,448,554
Water Service	6,074,097	6,711,049	7,776,582	9,127,539	10,477,058
Wastewater Service	8,652,596	7,931,271	8,161,485	10,723,639	10,862,351
Ad Valorem Taxes	16,271,059	17,622,207	17,789,635	16,254,320	15,048,059
Interest Income[1]	6,612,647	9,292,695	6,337,190	6,685,940	3,671,725
Connection Fees - Water	3,100,050	1,454,500	896,624	290,477	236,080
Connection Fees - Wastewater[2]	1,219,750	2,395,553	1,316,970	6,153,635	276,856
Federal, state and local capital grants	500,785	626,083	1,551,562	3,149,581	3,284,896
Other Revenue	5,456,943	5,282,096	5,004,122	5,367,200	5,042,186
Total	$101,080,486	$104,903,887	$104,501,974	$113,976,099	$105,372,920
MAINTENANCE AND OPERATION COSTS					
Administration	$ 8,469,239	$ 10,234,890	$ 11,328,694	$ 10,714,044	$ 11,456,106
Purchased Water	49,496,922	50,897,920	51,655,168	51,859,715	51,890,617
Water Operations	8,810,775	10,809,412	12,941,548	14,452,967	14,832,096
Wastewater Operations	7,754,861	7,810,818	8,074,817	9,018,894	9,086,468
Other Expenses	5,625,607	5,918,202	7,951,851	8,718,326	5,013,535
Contract Resource Obligations	1,986,239	1,974,146	829,532	1,223,458	731,894
Total[3]	$ 82,143,643	$ 87,645,388	$ 92,781,610	$ 95,987,404	$ 93,010,716
NET REVENUES	$ 18,936,843	$ 17,258,499	$ 11,720,364	$ 17,988,696	$ 12,362,204
DEBT SERVICE					
2002 Series Bonds	2,513,341	3,041,456	2,640,029	-	-
2009 Series A and B Bonds	-	-	-	5,967,575	5,753,746
2010 Series A and B Bonds	-	-	-	-	1,337,200
TOTAL DEBT SERVICE[4]	$ 2,513,341	$ 3,041,456	$ 2,640,029	$ 5,967,575	$ 7,090,946
NET REVENUES AFTER DEBT SERVICE	$ 16,423,502	$ 14,217,043	$ 9,080,335	$ 12,021,121	$ 5,271,258
DEBT SERVICE COVERAGE	7.53	5.67	4.44	3.01	1.74

(1) Includes realized and unrealized gains and losses on investments.

(2) Fiscal Year 2010 includes a $5.0 million one-time payment from the March Joint Powers Authority ("JPA") that will be applied toward future connection fees of certain businesses moving into the March JPA redevelopment area.

(3) Maintenance and operation costs are less than shown in the District's audited financial statement to reflect that the loan for the District's headquarter building is not payable from Net Revenues of the District.

(4) Debt Service relating to the 2010B Bonds is net of the Federal subsidy on the District's Build America Bonds of about $921,000 annually.

Source: Western Municipal Water District

Table 9 sets forth the District's cash and investment balances for the Fiscal Years ended June 30, 2007 through June 30, 2011.

TABLE 9
WESTERN MUNICIPAL WATER DISTRICT
Historical Cash & Investment Balances
Fiscal Years Ended June 30, 2007 through 2011

	FY2007	FY2008	FY2009	FY2010	FY2011
Restricted	$45,681,390	$40,291,890	$66,362,970[(1)]	$41,286,495	$62,039,835 [(2)]
Unrestricted	64,732,147	68,874,170	71,155,073	70,962,579	81,473,412
Total Cash & Investments	$110,413,537	$109,166,060	$137,518,043	$112,249,075	$143,513,247

(1) Reflects receipt by the District of the proceeds of the 2009 Bonds. Such proceeds were spent in Fiscal Year 2009-10 on the District's Water Recycling Facility expansion and the District's new Operations Center.
(2) Reflects receipt by the District of the proceeds of the 2010 Bonds. Such proceeds have not been fully spent in Fiscal Year 2010-11.
Source: Western Municipal Water District

Projected Operating Results

Table 10 sets forth the District's projected revenues, operation and maintenance costs and debt service coverage for Fiscal Years 2012 through 2016. Fiscal Year 2012 is based on the District's adopted budget plus actual investment net gain and grant revenue received through March 31, 2012. As of March 31, 2012, results were better than budget by $3.9 million. Fiscal year 2013 is based on the budget adopted by the Board May 23, 2012. Fiscal year 2013 operation expenses reflect cost reduction measures particularly in wastewater operations. For purposes of Table 10 the District has made several assumptions as described below. When applicable, notable changes from fiscal year 2011's actual results to 2012's adopted budget are also explained in this section.

- Wholesale water sales revenue growth is based on a projected annual rate increase of 5% by the District to its wholesale customers. The rate increase is believed to be sufficient to cover anticipated MWD rate increases on water purchased by the District. Rate increases for water sold from the District's Arlington Desalter are projected to equal expected cost increases. Rate increases require Board approval and do not require a noticed hearing per Proposition 218.

- Retail water sales revenue growth is based on 1) projected new customer growth ranging between 0.3% and 1.5% annually in the Riverside treated water service area and between 0.8% and 3.5% in the Murrieta service area, and 2) projected annual rate increases between 4% and 5% by the District to its retail customers. The rate increases are sufficient to cover anticipated MWD rate increases on water purchased by the District. The notable increase in revenue from fiscal year 2012 to 2013 compared with the increase from 2011 to 2012 is due to the implementation of a new rate structure called Water Budget Rates (WBR). WBR is a five-tiered inclining rate structure that incorporates penalty components in the upper tiers. The additional revenue from the penalty tiers is reflected beginning with the fiscal year 2012 revenue. Retail water rates, as adopted through fiscal year 2015, may increase as a result of various pass-through provisions as discussed in "-*Retail Water Rates*" above without further action by the Board or a public hearing.

- Water service revenue growth is due to 1) projected annual rate increases of 5% in the District's administrative fee charged to its wholesale customers, 2) projected new customer growth ranging between 0.3% and 1.5% annually in the Riverside treated water service area and between 0.8% and

3.5% in the Murrieta service area, and 3) projected annual rate increases of 4% by the District to its retail customers. Similar to retail water rates, retail service rate increases through fiscal year 2015 are not subject to a public hearing or a Board vote.

- Wastewater service revenue assumes annual rate increases of 3% to 7% (depending on the wastewater system; and which have not yet been adopted by the Board) for Fiscal Years 2013 and thereafter. In addition, the growth in revenue is affected by projected new customer growth between 0.2% and 3% (depending on the wastewater system). The notable decrease in revenue from fiscal year 2012 to 2013 compared with the increase from 2011 to 2012 is due to a reduction in pass-through penalties that were assessed to a single industrial customer for excessive strength of their wastewater discharge. This customer has moved from the service area so the penalty revenue is no longer budgeted beginning in fiscal year 2013.

- Ad valorem tax revenue is projected to continue declining from fiscal year 2012 to 2013, but is anticipated to increase 2% annually thereafter as the economy slowly begins to recover.

- Interest income has been estimated at an earnings rate of 2.7% to 3.0% on the projected average cash balance.

- Connection fee revenue is based on conservative customer growth estimates.

- Other revenue consists of contract services revenue derived from the District providing administrative and operational support to WRCRWA for its wastewater treatment plant, and to SAWPA for operational support of its industrial wastewater disposal line ($1.5 million total for both annually), leased capacity revenue from wholesale agencies using the District's Mills gravity water line (between $306,000 to $365,000 annually), capacity sales revenue of approximately $662,000 annually, an annual pass-through amount of approximately $562,000 to $770,000 paid to the District by the City of Corona and Elsinore Valley Municipal Water District and applied by the District to repay a corresponding amount of a portion of the Contract Resource Obligations, and other non-operating revenue of about $890,000. Contract Resource Obligations consist of principal and interest payments on loans and notes due to governmental agencies and to other entities for water and related purchases. Fiscal year 2012's amount includes net investment gains and grant revenue earned year to date ($2.6 million); future year amounts do not include estimates for these two revenue types.

- Administration expense is based on a 6% annual growth rate applied to the amounts for fiscal years 2014 through 2016. The decline in fiscal year 2012's amount compared with fiscal year 2011 is due to aggressive cost reduction measures and the allocation of more administrative costs to the District's enterprise activities.

- Purchased water expense growth is derived primarily from anticipated MWD annual rate increases on water purchased by the District, which are estimated at around 5% annually. However, beginning in fiscal year 2014, the projections incorporate the margin derived from selling the District's share of water produced at a lower cost from the expanded Chino II Desalter sold to the District's wholesale customers at pricing equivalent to MWD rates.

- Water operations expense is based on a 4% annual growth rate applied to the amounts for fiscal years 2014 through 2016.

- Wastewater operations expense assumes an annual growth rate of 4% for fiscal years 2014 and thereafter. The notable decrease in expense from fiscal year 2012 to 2013 compared with the increase from 2011 to 2012 is due to a reduction in pass-through penalties as described in the Wastewater service revenue topic above.

- Other expenses consists of 1) the expense side of the contractual services the District provides to other agencies ($1.5 million) as described in the Other Revenue topic above, 2) special improvement studies

and projects budgeted at $1.2 million in fiscal year 2012 and reduced to $500,000 in fiscal year 2013 with a 3% projected increase for subsequent years, and 3) bond expenses at approximately $300,000 per year. The notable decrease in other expenses from fiscal year 2011 to fiscal year 2012 is due to 2011's amount including a $1.6 million capital contribution paid to other agencies as a pass-through of grant revenue received in the same fiscal year.

- Contract resource obligations consists of the expense side of the pass-through amount ($520,000) from the City of Corona and Elsinore Valley Municipal Water District as described in the Other Revenue topic above.

TABLE 10
WESTERN MUNICIPAL WATER DISTRICT
Projected Operating Results
Fiscal Years Ended June 30, 2012 through 2016

	FY2012	FY2013	FY2014	FY2015	FY2016
GROSS REVENUE					
Wholesale Water Sales	$ 42,394,542	$ 48,024,445	$ 50,159,851	$ 52,449,143	$ 54,852,902
Retail Water Sales	22,852,854	25,404,479	26,660,797	28,051,218	29,588,714
Water Service	12,246,700	13,403,643	14,530,378	15,710,611	16,666,094
Wastewater Service	12,346,615	11,214,598	11,783,216	12,401,046	13,072,434
Ad Valorem Taxes	15,780,000	15,580,000	15,891,600	16,209,432	16,533,621
Interest Income	2,977,633	2,941,328	2,936,551	3,049,406	3,315,128
Connection Fees - Water	236,079	197,690	226,970	482,305	781,700
Connection Fees - Wastewater	276,856	187,040	203,880	444,480	726,720
Other Revenue	6,492,891	3,888,689	3,905,549	3,922,838	3,940,567
Total	$115,604,171	$120,841,912	$126,298,792	$132,720,479	$139,477,880
MAINTENANCE AND OPERATION COSTS[1]					
Administration	$ 10,801,918	$ 10,866,184	$ 11,518,155	$ 12,209,245	$ 12,941,800
Purchased Water	57,504,838	63,090,900	65,506,547	68,047,221	71,640,199
Water Operations	17,827,754	18,623,013	19,367,934	20,142,652	20,948,357
Wastewater Operations	10,440,940	9,125,477	9,490,496	9,870,116	10,264,921
Other Expenses[2]	2,961,614	2,437,311	2,464,808	2,493,130	2,522,302
Contract Resource Obligations[3]	769,586	587,086	562,418	562,417	562,418
Total	$100,306,650	$104,729,971	$108,910,358	$113,324,781	$118,879,997
NET REVENUES	$ 15,297,521	$ 16,111,941	$ 17,388,434	$ 19,395,698	$ 20,597,883
DEBT SERVICE					
2009 Series B Bonds	3,209,993	3,203,243	3,196,243	3,178,643	3,170,643
2010 Series A and B Bonds	2,135,310	2,755,562	2,995,662	2,998,175	2,990,487
2012 Series A Bonds	2,610,397	1,215,304	1,188,492	1,188,491	1,188,492
TOTAL DEBT SERVICE[4]	$ 7,955,700	$ 7,174,109	$ 7,380,397	$ 7,365,309	$ 7,349,622
NET REVENUES AFTER DEBT SERVICE	$ 7,341,821	$ 8,937,832	$ 10,008,037	$ 12,030,389	$ 13,248,261
DEBT SERVICE COVERAGE	1.92	2.25	2.36	2.63	2.80

(1) Excludes depreciation.

(2) This line item includes the funding of special improvement studies and projects as referred to in the assumptions section preceding this table. About $1.2 million was budgeted in FY2012 and $500,000 is included in FY2013 with a 3% annual increase in each subsequent year of the projections. Though considered worthy projects, they can be discontinued or delayed as needed to free up resources to the District.

(3) Represents principal and interest due on long-term debt and Contract Resource Obligations and includes certain lease payments that are not Operation and Maintenance Costs for purposes of the Master Agreement.

(4) Based on swap rates ranging 2.715% to 2.960% for the 2012 Series A Bonds, the fixed rates for the 2009 Series B Bonds, the fixed rates for the 2010 Series A Bonds, and the fixed rates for the 2010 Series B Bonds net of the Federal subsidy on the District's Build America Bonds of about $921,000 annually.

Source: Western Municipal Water District

Budgetary Process

The District's Board of Directors annually approves a budget, which is formulated on a divisional basis and by department. The budget is prepared using budgeting by objectives in determining the annual goals and objectives for each department of the District. Such goals and objectives are then detailed into specific action plans and translated into dollars through the budget process. Budget appropriations for major capital projects continue from year to year until the project is completed.

Capital Improvement Plan

The District manages its water and wastewater capital needs through a comprehensive master planning process. The District produces a separate master plan for each of its water and wastewater systems. Those plans are updated approximately every 5 years, with the most recent update for each plan occurring in 2008. The timing of projects in the master plan is subject to change primarily based on the actual rate of growth in the District's service area. The District anticipates that over time approximately 45% of its future capital expenditures will be paid for from current revenue and reserves of the District, and that 55% will be paid with the proceeds of additional indebtedness secured by Net Revenues.

Table 11 is a summary of the District's estimated five year staff-generated capital improvement plan. The plan includes approximately $65 million in capital projects.

TABLE 11
WESTERN MUNICIPAL WATER DISTRICT
Five Year Capital Improvement Plan
For Fiscal Years Ended June 30, 2013 through 2017

Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total Anticipated Expenditures
WATER PROJECTS						
Replacement Projects						
Wholesale Service Area	$ 178,500	$ 178,500				$ 357,000
Riverside Service Area	1,745,000	2,321,500	$2,575,000	$2,552,000	$1,797,000	10,990,500
March Service Area					845,000	845,000
Total Replacement Projects	1,923,500	2,500,000	2,575,000	2,552,000	2,642,000	12,192,500
Projects Related to Growth						
Riverside Service Area	1,700,000					1,700,000
Total Projects Related to Growth	1,700,000	0	0	0	0	1,700,000
Water Resource and Other Projects						
Wholesale Service Area	33,509,684	265,784	-1,629,908			32,145,560
Riverside Service Area	4,150,000	3,260,000	2,071,000	410,000	285,000	10,176,000
Murrieta Service Area		370,000				370,000
Total Water Resource and Other Projects	37,659,684	3,895,784	441,092	410,000	285,000	42,691,560
Total Water Projects	$41,283,184	$ 6,395,784	$3,016,092	$2,962,000	$2,927,000	$56,584,060
WASTEWATER PROJECTS						
Replacement Projects						
March Service Area				$ 100,000	$ 90,000	$ 190,000
Total Replacement Projects	$ 0	$ 0	$ 0	100,000	90,000	190,000
Projects Related to Growth						
March Service Area	21,000					21,000
Total Projects Related to Growth	21,000	0	0	0	0	21,000
Other Projects						
March Service Area	50,000	1,135,000				1,185,000
WRCRWA Service Area	780,555	100,000				880,555
Total Other Projects	830,555	1,235,000	0	0	0	2,065,555
Total Wastewater Projects	$ 851,555	$ 1,235,000	$ 0	$ 100,000	$ 90,000	$ 2,276,555
Total General District Projects	$ 1,270,000	$ 3,070,000	$ 685,000	$ 535,000	$ 335,000	$ 5,895,000
Total Capital Improvement Plan	$43,404,739	$10,700,784	$3,701,092	$3,597,000	$3,352,000	$64,755,615

Source: Western Municipal Water District.

Property Tax Revenues

The District receives a portion of the general 1% ad valorem taxes collected by the County.

Assessed Valuation. The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Due to changes in assessment required under State Constitution Article XIII A, the County assessment roll no longer purports to be proportional to market value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND REVENUES" herein. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the State consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and

adjustments, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND REVENUES" herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property.

Table 12 sets forth the assessed valuations applicable to land and improvements within the District for each of the past eight Fiscal Years and current Fiscal Year.

TABLE 12
WESTERN MUNICIPAL WATER DISTRICT
Assessed Valuations

Fiscal Year (Ended June 30)	Total Assessed Valuation[(1)]
2011	$65,848,324,548
2010	$67,433,097,932
2009	$74,502,727,975
2008	$73,840,164,058
2007	$63,958,883,602
2006	$52,494,938,437
2005	$45,054,049,101
2004	$39,862,318,543
2003	$36,293,267,447

(1) Differs from amount referenced in Table 14, as Table 14 excludes certain fringe area of the District.
Source: Western Municipal Water District.

Tax Levies and Delinquencies. Property taxes are based on assessed valuation which is determined as described under "Property Tax Revenues - Assessed Valuation" above. In accordance with the California Revenue and Taxation Code, the County tax collector collects secured tax levies for each Fiscal Year. Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment and interest accrues at 18% per annum from and after the July 1 following the delinquency date. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer-Tax Collector. The District does not participate in the County's Teeter Plan which is a plan pursuant to which the County pays to participating public agencies 100% of the amounts levied and then keeps all delinquent taxes, interest and penalties. Accordingly, the District receives all of the delinquencies, interest and penalties relating to its levies.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

The following Table shows property tax levies, property tax collections and delinquencies within the District's service area from Fiscal Year 2006-07 to Fiscal Year 2010-11.

TABLE 13
WESTERN MUNICIPAL WATER DISTRICT
Assessed Value Collections and Delinquencies

	Fiscal Year				
Description	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Tax Levy[1]	$15,012,038	$16,898,561	$16,596,395	$16,116,876	$14,336,986
Current Collections [1]	$13,577,478	$14,880,712	$14,669,306	$13,879,442	$13,265,529
Delinquent Collections [1]	$ 566,001	$ 1,016,734	$ 1,703,950	$ 1,463,384	$ 1,011,911
Supplemental Collections [2]	$ 1,941,032	$ 1,166,282	$ 368,708	$ 162,710	$ 113,857
Redevelopment Collection [2]	$ 215,762	$ 269,277	$ 258,799	$ 247,969	$ 335,397
Penalties and Interest	$ 152,491	$ 289,202	$ 457,528	$ 398,647	$ 322,614
Total Collections[3]	$16,442,764	$17,622,207	$17,458,291	$16,152,152	$15,049,308
Delinquency Rate	9.6%	11.9%	11.6%	13.9%	7.5%
Total Collections to Assessments	109.5%	104.3%	105.2%	100.2%	105.0%

(1) Includes secured, unsecured, homeowners and State Board of Equalization taxes.
(2) Includes collections for current and prior year levies.
(3) Differs from the District's CAFR due to timing differences and the exclusion of Assessment District No. 90-1 receipts.
Source: Western Municipal Water District

Proposition 1A and ERAF

On November 2, 2004, California voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State 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 2008-09, 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. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Given the magnitude of the State's budgetary deficit, it is possible that the Governor will proclaim that a shift of additional local property tax revenue, including tax revenue of the District is needed due to severe financial hardship.

The 2006 State Budget included a $1.3 billion shift of local government property taxes to the Educational Revenue Augmentation Fund ("ERAF"). The 2006 State Budget apportioned the $1.3 billion among cities ($350 million), counties ($350 million), special districts ($350 million) and redevelopment agencies ($250 million). The $1.3 billion ERAF transfer was limited to Fiscal Years 2005 and 2006. The District's share of this additional shift of property taxes was $6.7 million of its ad valorem property tax revenues annually for both the 2005 and 2006 Fiscal Years. Proposition 1A, which was approved by voters in the State in

November 2004, prevents the State from reducing local governments' share of the property tax below the current levels, except in the case of fiscal emergency, is described above. Proposition 1A provides that, in the case of fiscal emergency, the State could borrow up to eight percent of local property taxes to be repaid within three years.

A fiscal emergency was declared and the suspension of Proposition 1A was passed by the California Legislature and signed by the Governor as ABX4 14 and ABX4 15 as part of the 2009-10 budget package on July 28, 2009. Under the provision, the State borrowed eight percent of the amount of property tax revenue apportioned to cities, counties and special districts. The state is required to repay those obligations plus interest by June 30, 2013. Also authorized under ABX4 14 and ABX4 15 was the Proposition 1A Securitization Program instituted by California Communities to enable local agencies to sell their respective Proposition 1A Receivables to California Communities. SB 67 clarified specific aspects of ABX4 14 and ABX4 15. Under the Securitization Program, California Communities was allowed to simultaneously purchase Proposition 1A Receivables, issue bonds ("Prop 1A Bonds") and provide each local agency with the cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010 (to coincide with the dates that the State would shift property taxes from local agencies). The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The District's Board of Directors approved participating in the securitization program and received all proceeds accordingly.

The District currently receives approximately 14% of its revenues from the 1% ad valorem property tax levy. It cannot be predicted if future legislation will be introduced to alter the provisions of Proposition 1A.

Direct and Overlapping Bonded Debt

Table 14 sets forth the District's total direct and overlapping bonded debt as of June 15, 2012, exclusive of the Parity Obligations.

TABLE 14
WESTERN MUNICIPAL WATER DISTRICT
Direct and Overlapping Bonded Debt

2011-12 Assessed Valuation:	$65,908,380,343 (1)
Redevelopment Incremental Valuation:	15,973,190,694
Adjusted Assessed Valuation:	$49,935,189,649

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/15/12
Metropolitan Water District	2.765%	$ 5,434,469
Riverside City Community College District	78.927	182,209,586
Alvord Unified School District	99.987	205,134,283
Corona-Norco Unified School District	95.958	262,994,557
Jurupa Unified School District	99.783	51,141,753
Murrieta Valley Unified School District	12.685	21,415,769
Riverside Unified School District	99.991	147,121,758
Other School Districts	Various	2,073,949
City of Riverside	97.358	15,494,526
Western Municipal Water District Community Facilities Districts	100.	8,440,000
Western Municipal Water District Assessment District No. 90-1 (Lake Hills)	100.	480,000
Riverside County Flood Control District, Zone No. 3 Benefit Assessment District	33.812	804,726
Community Facilities Districts	Various	1,012,794,102
City and Special District 1915 Act Bonds	Various	43,820,643
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,959,360,121

Ratios to 2011-12 Assessed Valuation:
Direct Debt.....0.00%

Total Direct and Overlapping Tax and Assessment Debt.....2.97%

OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	34.426%	$225,504,821
Riverside County Pension Obligations	34.426	123,086,720
Riverside County Board of Education Certificates of Participation	34.426	1,740,234
Alvord Unified School District Certificates of Participation	99.987	2,026,797
Corona-Norco Unified School District Certificates of Participation	95.958	28,820,985
Jurupa Unified School District Certificates of Participation	99.783	7,204,333
Lake Elsinore Unified School District Certificates of Participation	42.871	16,149,506
Murrieta Unified School District General Fund Obligations	12.685	2,733,618
Riverside Unified School District Certificates of Participation	99.991	13,258,807
Other School District General Fund Obligations	Various	3,757,872
City of Corona General Fund Obligations	99.987	64,406,626
City of Lake Elsinore General Fund Obligations	56.816	7,371,876
City of Moreno Valley General Fund Obligations	0.425	318,410
City of Murrieta General Fund Obligations	14.753	1,883,958
City of Riverside General Fund Obligations	97.358	201,136,760
City of Riverside Pension Obligations	97.358	124,111,978
Other City and Special District General Fund Obligations	Various	223,137
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$ 823,736,438
Less: Riverside County supported obligations		4,267,415
City of Corona supported obligations		2,394,689
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$ 817,074,334

TOTAL DIRECT DEBT	$ 8,920,000
TOTAL GROSS OVERLAPPING DEBT	$2,767,514,455
TOTAL NET OVERLAPPING DEBT	$2,776,434,455
GROSS COMBINED TOTAL DEBT	$2,783,096,559 (2)
NET COMBINED TOTAL DEBT	$2,776,434,455

(1) Excludes assessed valuation of additional fringe areas of the District.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt.....5.57%
Net Combined Total Debt.....5.56%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: $0

Source: California Municipal Statistics, Inc.

Investment Policy

All of the District's revenues from retail water sales, wholesale water sales, retail water service charges and wholesale and retail wastewater service are invested as directed by Chief Financial Officer in accordance with an investment policy annually approved by the Board of Directors.

The District may invest all cash and investment assets of the District not immediately required for operations in a manner consistent with the District's Investment Policy (the "Investment Policy"). The Investment Policy mandates "prudent" investment in certain instruments specifically authorized by State law (and briefly described below) and establishes additional diversification and collateralization guidelines. The District may invest in securities of the United States Government, indebtedness of the State of California and local agencies thereof, negotiable and non-negotiable certificates of deposit, commercial paper, medium term notes, the Local Agency Investment Fund ("LAIF") managed by the State Treasurer's Office, mortgage backed securities, designated mutual funds, repurchase agreements, bankers' acceptances and specified bank obligations. Investments not specifically enumerated in the Investment Policy are prohibited. See Note 2 to the District's Financial Statements attached as Appendix C for a further description of the types, maximum maturities and concentration of investments permitted by the Investment Policy. As of April 30, 2012, the total market value of all District funds subject to the Investment Policy was approximately $96,836,619. Of such amount 50% was invested in agency notes, 25% in U.S. corporate notes, 19% in U.S. Treasury Notes, 3% in commercial paper, and 3% in money market funds. To see the District's investment portfolio as of June 30, 2011, see footnote 2 to the District's Audited Financial Statements in Appendix C – "AUDITED FINANCIAL STATEMENTS."

Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan (the Plan). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Plan are required to contribute 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.5% at age 55 Risk Pool Retirement Plan for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the Fiscal Year ended June 30, 2011 was 7.062%. For the Fiscal Year ended June 30, 2012, the rate is set at 12.572% and projected by CalPERS to be 12.741% for the Fiscal Year ending June 30, 2013. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. In Fiscal Year 2004-05, the District made a prepayment to CalPERS in the amount of $3,144,154, which is being amortized over a nine year period. This has resulted in a negative net pension obligation (NPO) which is an asset recorded in the District's Statements of Net Assets. The prepaid balance was $184,924 and $410,102 at June 30, 2011 and 2010, respectively.

Annual Pension Cost

For the Fiscal Year ended June 30, 2011, the District's annual pension cost (APC) of $1,711,119 for CalPERS was equal to the annual required contribution (ARC) of $1,485,941 plus $225,178 from the net of the amortization of the prepaid CalPERS contribution less investment loss computed on the prepaid contribution.

The required employer contribution rate was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, duration of service, and type of employment, and (c) 3.00% inflation, (d) 3.25% payroll growth, and (e) individual salary growth using 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%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value).

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level of % of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% 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.

In August 2004, the District made a $3.1 million prepayment to PERS in order to reduce its employer's rate to zero for both Fiscal Years 2005 and 2006. This interest bearing side fund was initially set to be amortized over 12 years to offset future employer contributions. Since its establishment, the side fund has had two lump sum reductions resulting from significant events. The two events were 1) in November 2005, Murrieta County Water District (MCWD) was merged into Western Municipal Water District, and since the PERS asset pool that MCWD was in was not funded at the same level as the District's, a lump sum transfer was made from the side fund to correct this. 2) In October 2007, the District's PERS benefit plan changed from 2.0% @ 55 to 2.5% @ 55. The side fund was consequently reduced to bring the District's funding level to match that of the new plan's asset pool. In addition, investment returns are not amortized over a period of years for side funds. Consequently, a negative 24% investment return experienced by CalPERS during Fiscal Year 2009 was applied to the side fund during Fiscal Year 2010. Likewise, the increase in the Annual Pension Cost in Fiscal Year 2008-2009 compared with the prior Fiscal Year resulted from a market adjustment applied to the District's side fund balance to reflect extraordinary negative investment earnings by CalPERS during the Fiscal Year. The side fund balance at June 30, 2011 was $184,924 and is categorized as a prepaid asset in the District's financial statements.

As is the case with most retirement systems, CalPERS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the Retirement System depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within Fiscal Year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of the Retirement System and the District's required contribution to the Retirement System.

Other Post-Employment Benefits

The District is the Plan Administrator for the Western Municipal Water District Retirement Medical Benefits Plan (the plan). The plan was established effective June 15, 2006 and is a single employer defined benefit pension plan to provide advance funding for medical post-employment health care benefits to eligible employees and eligible dependents in accordance with plan provisions. Plan assets are accumulated and benefits are paid from a voluntary employees' beneficiary association (VEBA) trust established by the District.

Eligible participants for the Plan are based on four groups:

(a) Group 1 are classified employees hired on or before December 18, 2002, who are at least fifty five (55) years old at retirement and have completed at least twelve (12) years of service. The District provides benefits for the employee and spouse.

(b) Group 2 are classified employees hired after December 18, 2002, who are at least fifty five (55) years old at retirement and have completed at least fifteen (15) years of service. The District provides benefits for the employee only.

(c) Group 3 are non-classified employees hired on or before December 18, 2002, who are at least fifty five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee and spouse.

(d) Group 4 are non-classified employees hired after December 18, 2002, who are at least fifty five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee only.

As of the Fiscal Year ended June 30, 2011, there were 29 persons who had retired and were eligible for Plan benefits. The District's annual required contribution and actual contribution to the VEBA trust were $590,922 and $491,418 for Fiscal Years ended June 30, 2011 and 2010. The VEBA trust paid insurance premiums on behalf of retired employees in the amounts of $239,971 and $219,076 for the Fiscal Years ended June 30, 2011 and 2010, respectively.

The funded status of the plan as of June 30, 2011 was as follows:

Actuarial accrued liability (AAL)	$9,223,686
Actuarial value of plan assets	7,529,501
Unfunded actuarial accrued liability (UAAL)	$1,694,185
Funded ratio (actuarial value of plan assets / AAL)	81.6%
Covered Payroll (active plan members)	$8,091,122
UAAL as a percentage of covered payroll	20.9%

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Proposition 218 and Future Rate Increases

The District's projections with respect to water rates and revenues depend on its ability to increase rates. All rate increases for retail customers are required to follow the procedures prescribed by Proposition 218 and the cases interpreting Proposition 218. The District has covenanted to raise rates to satisfy the rate covenant contained in the Master Installment Purchase Agreement, but cannot guaranty that rates will be raised sufficiently to satisfy the rate covenant as certain rate increases are subject to property owner approval. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIIIC and XIIID."

Limited Obligations and Limited Recourse on Default

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge or charge or lien upon any property of the Authority or any of its income or receipts, except the Net Revenues. The obligation of the Authority to pay debt service on the Bonds does not constitute an obligation of the Authority or the District to levy or pledge any form of taxation or for which the Authority or the District has levied or pledged any form of taxation.

Remedies available to the owners of the Bonds in the event of a default by the District under the Master Agreement or the Installment Purchase Agreement 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 Bonds, the Indenture, the Master Agreement and the Installment Purchase Agreement 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 to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

Increased Operation and Maintenance Costs

There can be no assurance that expenses of the District with respect to the System will be consistent with the levels contemplated in this Official Statement. Changes in technology, increases in the cost of operation or other expenses could require increases in rates or charges in order to comply with the District's rate covenant, and could increase the possibility of nonpayment of debt service on the Bonds.

Statutory and Regulatory Impact

Laws and regulations governing treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase. Claims against the District with respect to the System and the Service could be significant. Such claims are payable from assets of the District or from other legally available sources.

Although the District has covenanted in the Master Agreement to fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which are estimated to yield Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the District to generate Net Revenues in the amounts required by the Master Agreement and to pay the Installment Payments.

Property Tax Collections

The District receives approximately 15% of its revenue from the 1% property tax levy under Article XIII A of the State Constitution. In fiscal years 2009-10 and 2010-11, the District received $16,254,320 and $15,048,059, respectively, from this revenue source. Due to the severe downturn in the housing market in Riverside County, it is possible that the District will experience higher delinquency rates and reduced property tax collections in the current and in future fiscal years. In past years, the allocation of Article XIII A property taxes to local agencies has been revised such that property tax revenue was diverted away from special districts, such as the District, to school districts. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the 1% Article XIII A levy paid to the District or whether the State will exercise its rights under Proposition 1A to borrow property taxes from the District. See "WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY – Proposition 1A and ERAF."

Shortage of Imported Water

The ability of the District to service its customers is dependent upon its receipt of imported water from MWD. As described above under the caption "WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY – Water System," the District is supplied the majority of its water by MWD. MWD faces various challenges in continuing to supply imported water to its respective member agencies.

No assurance can be made that MWD will continue to supply water to the District in the amounts sufficient to meet the needs of the District. MWD has stated that it faces a number of challenges in providing a reliable and high quality water supply for southern California. Operating and other financial information with respect to MWD is included in certain publicly available disclosure documents prepared by MWD. In addition, MWD has 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 material events as defined under Rule 15c2-12 of the Securities Exchange Act and annual audited financial statements with certain information repositories. Recent disclosure information regarding MWD can be found on its website at www.mwdh2o.com. This website is provided for convenience, and none of the information on the website is specifically incorporated herein by reference.

Factors Related to Swaps

The District has entered into the 2008 Swap and has reserved the right to enter into other interest rate swaps or hedge agreements prior to the Maturity Date of the Bonds that are secured by a pledge of Net Revenues.

Any interest rate swap or other hedge agreement, including the 2008 Swap, to which the District is a party may, at any time, have a negative value to the District. There are no automatic termination events under the 2008 Swap, but there are various events that give rights to the District and the 2008 Swap Provider to terminate the 2008 Swap. Other swaps or hedge agreements entered into by the District would likely have early termination rights for both parties. If either a swap or other hedge counterparty or the District terminates such an agreement when the agreement has a negative value to the District, the District would generally be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial. An early termination of the 2008 Swap, or another swap or hedge agreement entered into by the District could reduce the amount of funds available to the District to pay the principal of and interest due on the Bonds. A counterparty may generally only terminate such an agreement upon the occurrence of defined

events of default and termination events including without limitation nonpayment by the District or in the event rating agencies withdraw or downgrade the ratings of the District below specified levels.

In addition, if certain events occur, the District may be required to deliver collateral to secure the amount that would be owed to the counterparty under any interest rate swap or other hedge agreement if such agreement were to be terminated at that time, including the 2008 Swap, and the amount of collateral required to be delivered could be substantial. A required posting of collateral could reduce the amount of funds available to the District to pay the principal of and interest due on the Bonds. The District currently has approximately $2,300,000 of collateral posted with the 2008 Swap Provider.

Seismic Considerations

The geographic area constituting the District, like all California communities, is subject to unpredictable seismic activity. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District, including the System. Such an event could result in disruptions in the services provided by the District, a loss or contamination of groundwater supplies and significant reductions in Net Revenues of the District.

Security of the System

In response to the terrorist attacks of September 11, 2001, the District conducted a security vulnerability analysis in 2003 by a recognized security consultant. The assessment and a security improvement plan was presented and accepted by the Board of Directors in July 2003. The critical items recommended in the assessment and improvement plan have been implemented. Even with the implementation of these security measures, the District cannot guaranty that a terrorist attack will not occur at one of its facilities.

Water System Demand and Possible Increase in Unpaid Water Bills

There can be no assurance that the local demand for water service provided by the System will be maintained at levels described in this Official Statement under the heading "WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY." Reduction in the level of demand could require an increase in rates or changes in order to produce Net Revenues sufficient to continue all District operations. Such rate increases could increase the likelihood of nonpayment and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the System will not adopt further restrictions on operation of the System.

In addition, Southern California continues to suffer from a depressed housing market and many homeowners are behind in mortgage payments and are in or are facing foreclosure. These homeowners may encounter difficulties in paying water bills which would result in revenue loss to the District.

System Expenses

There can be no assurance that Maintenance and Operation Costs of the System will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to fund District operations. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Effect of Bankruptcy

In addition to the limitations on remedies contained in the Indenture, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. In the event of the

bankruptcy of the District, the obligations of the District under the Master Agreement and the Installment Purchase Agreement may be set aside.

Loss of Tax Exemption

The District has covenanted in the Installment Purchase Agreement that it will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Internal Revenue Code of 1986. In the event the District fails to comply with the foregoing tax covenant, interest on the Bonds may be includable in the gross income of the Owners thereof for federal tax purposes. See "TAX MATTERS."

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA

Article XIIIA of the State Constitution provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 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," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. As amended, Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

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 XIIIA 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 Capacity 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 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 Capacity Fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY – Property Tax Revenues" herein.

Article XIIIB

Article XIIIB of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the District are used to pay the costs of maintaining and operating the System and payments due on Obligations (including the funding of the Reserve Fund), the District believes that such moneys are not subject to the annual appropriations limit of Article XIIIB.

Articles XIIIC and XIIID

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the District, to levy and collect both existing and future taxes, assessments, fees and charges.

Section 1 of Article XIIIC requires majority voter approval for the imposition, extension or increase of general taxes and Section 2 thereof requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIIIC reduce the flexibility of the District to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the District will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements. The District has not enacted, imposed, extended or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID ("SB 919"). However, on July 24, 2006, the California Supreme Court ruled in Bighorn-Desert View Water Agency v. Virjil (Kelley) (the "Bighorn Decision") that charges for ongoing water delivery are property related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIIC.

In the Bighorn Decision, the Supreme Court did state that nothing in Section 3 of Article XIIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the District will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges.

Notwithstanding the fact that water and wastewater service may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIIC, the District has covenanted to levy and charge rates which meet the requirements of the Master Agreement in accordance with applicable law.

Article XIIID 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." In the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written 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 with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

The District has complied with the applicable notice and protest procedures of Article XIIID for all increases in its water rates and charges and its wastewater rates and charges approved since the effective date of Article XIIID. In January 2001, the District and its counsel concluded based upon the appellate court decision in Howard Jarvis Taxpayers Association v. City of Los Angeles entered on November 1, 2000, that water and wastewater rates and charges were not fees or charges as defined in Article XIIID and, therefore, increases in such rates and charges were not subject to the notice and hearing requirements of Article XIIID. Consequently, while the District did hold public hearings prior to approving water and wastewater rate increases between January 2001 and June 2004, the District did not provide specific written notice of such proposed rate increases to the record owner of each identified parcel upon which such increased fee or charge was to be imposed. There has not been nor is there any pending challenge to any of the District's water or wastewater fees and charges approved since the effective date of Proposition 218. While District general counsel believes, based upon the judicial precedent in place during the period of these rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the District nor District general counsel can predict with certainty the outcome of a challenge to the increases in the District's water and wastewater rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIIID if one were brought. The District's general counsel also believes that the statute of limitations would bar any challenge to the validity of the District's fees and charges adopted between 1997 and 2006 and any claim for a refund for any such fees and charges then in effect. Since 2007, the District has complied with all applicable notice and protest procedures of Article XIIID for all increases in its water rates and charges and its wastewater rates and charges. At its regular meeting of June 10, 2010, the District Board, in full compliance with Article XIIID notice and protest procedures, reaffirmed all water and wastewater rates and charges adopted by the District between 1997 and 2010.

In addition, Article XIIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall 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 shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. 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 XIIID. 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 U.S. 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 are classified as assessments and must comply with the provisions of Proposition 218 pertaining to assessments. Standby charges imposed exclusively to finance the capital costs or maintenance and operation expenses for sewers or water 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 such standby charges are subject to the protest-election procedures in Article XIIID.

The District and its general counsel believe that the District's current standby charges are exempt from the requirements of Article XIIID. Should it become necessary, however, to increase the standby charges above current levels, the District would be required to comply with the requirements of Article XIIID. Furthermore, in interpreting Proposition 218, a court could conclude that although existing standby charges are exempt from the procedural requirements, such charges must still comply with the substantive provisions of Article XIIID. As to its rates and charges, the District believes that it is in compliance with the requirements of Proposition 218 and that it will continue to comply with its rate covenant in conformity with the provisions of Article XIIID of the California State Constitution. To date, there have been no legal challenges to rate increases implemented by the District pursuant to Proposition 218 or otherwise.

Proposition lA

Proposition 1A, proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition lA generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition lA provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition lA also provides that if the State reduces the vehicle license fee rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition lA requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

THE REMARKETING AGENT

The District has selected Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Remarketing Agent") to serve as the Remarketing Agent for the Bonds in the Weekly or Daily Rate Periods pursuant to a Remarketing Agreement, dated as of June 1, 2012, among the District, the Authority and the Remarketing Agent.

In accordance with, and subject to the terms of, the Remarketing Agreement, the Remarketing Agent's duties include (i) remarketing any Bonds upon any optional or mandatory tender for purchase and (ii) determining the interest rates on the Bonds. The Remarketing Agent may resign at any time, upon thirty (30) days written notice. The District or the Credit Facility Provider may remove the Remarketing Agent at any time upon written notice, provided that a replacement Remarketing Agent has been appointed by the District and has accepted such appointment.

The Remarketing Agent is Paid by the District

The Remarketing Agent's responsibilities include determining the interest rates for, from time to time, and remarketing any Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Indenture), all as further described in this Official Statement. The Remarketing Agent is appointed by the District and is paid by the District for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase the Bonds for its own account. The Remarketing Agent, in its sole discretion, may routinely acquire such tendered variable rate bonds for which it serves as remarketing agent in order to achieve a successful remarketing of the variable rate bonds (i.e., because there otherwise are not enough buyers to purchase the variable rate bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling such Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at a price at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. If the Remarketing Agent purchases Bonds for its own account, it may offer those Bonds at a price other than par to some investors. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices in the Secondary Market on any Date

Pursuant to the Indenture and the Remarketing Agreement, the Remarketing Agent is required to determine the Weekly Rate or Daily Rate, as applicable, on each rate determination date as the rate of interest that is the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell the Bonds on such date (the "Effective Date") at a price equal to the par amount thereof plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The Remarketing Agreement requires that the Remarketing Agent use its best efforts to sell tendered Bonds at par, plus accrued interest. There may or may not be Bonds tendered and remarketed on an interest rate determination date or an Effective Date and the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds (outside the tender process) at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including an interest rate determination date, at a price other than par to some investors.

The Ability to Sell the Bonds other than through Tender Process may be Limited

While the Remarketing Agent may buy and sell Bonds other than through the tender process, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

CERTAIN LEGAL MATTERS

Best Best & Krieger LLP, Riverside, California, Bond Counsel, will render its approving opinion in connection with the issuance of the Bonds, the form of which opinion is set forth in Appendix D. From time to time Bond Counsel represents the Underwriter on matters unrelated to the Bonds. See "Tax Matters" herein. Certain matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, for the Authority and the District by Best, Best & Krieger LLP, and for the Credit Facility Provider with respect to the Bonds, Chapman and Cutler, LLP. In addition, Best Best & Krieger LLP will render an opinion as Disclosure Counsel.

FINANCIAL STATEMENTS

The general purpose financial statements of the District included in Appendix C to this Official Statement have been audited by Rogers, Anderson, Malody & Scott, LLP, San Bernardino, California, independent certified public accountants (the "Auditor"). See Appendix C – "AUDITED FINANCIAL STATEMENTS" attached hereto. 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 C 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 January 26, 2012.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, provided however, that for the purpose of calculating federal corporate alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the District have covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Best Best & Krieger LLP.

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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of other similar bonds).

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction, and Bond Counsel expresses no opinion regarding any such other tax consequences.

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

LITIGATION

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 best knowledge of the District, threatened against the Authority or the District affecting the existence of the Authority or the District or the titles of its directors or officers to their offices or seeking to restrain or to enjoin the sale or issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Master Agreement, or the Installment Purchase Agreement, or any action of the Authority or the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement, or contesting the powers of the Authority or the District or their authority with respect to the Bonds or any action of the Authority or the District contemplated by any of said documents, nor, to the knowledge of the District is there any basis therefor.

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 best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District, including the District's ability to make Installment Payments.

CONTINUING DISCLOSURE

The District and the Authority will covenant for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2011-12 fiscal year (the "Annual Report") due by April 1, 2013, and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in Appendix F – "Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2 12(b)(5) (the "Rule").

Within the last five years, with the exception of one report that was filed several days late, the District and the Authority have timely filed their annual disclosures reports. However, the District had not included one portion of the information required in the annual disclosure reports consisting of "budget vs. actual" results for the fiscal year ending 2007 through fiscal year 2011, and in the case of one annual report for two community

facilities districts had not included a copy of the District's audited financial statements. Additionally, the District did not file material event notices with respect to rating changes on its 2009A Bonds and 2009 Bonds. Lastly, the District had not filed material event notices with respect to rating changes on two community facilities district bond issues. As these community facilities district bonds have been refunded and are no longer outstanding no further filing is required with respect to these bonds. Prior to the issuance of the Bonds, the District will file the information described above that was missing from certain of the annual disclosure reports and will file material event notices regarding the rating changes. Upon the issuance of the Bonds, the District will be in compliance with all of its disclosure obligations under previous undertakings made pursuant to Rule 15c2-12. The District is taking steps to assure that it will be in compliance with its future continuing disclosure undertakings.

UNDERWRITING

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $43,775,000. The District will pay the Underwriter a fee in the amount of $92,538.22. The Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

RATINGS

Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") have assigned the Bonds the jointly-secured rating of "AAA/A-1," and "AAA/F1," respectively, based on an understanding that upon delivery of the Bonds the Credit Facility supporting the Bonds will be issued by the Credit Facility Provider. S&P and Fitch have assigned the Bonds the long-term underlying credit rating of "AA+" (negative) and "AA" (stable), respectively. S&P and Fitch have noted that their long-term credit rating is based jointly on the long-term rating assigned to the Bonds (rated "AA+" by S&P and "AA" by Fitch) and the support of the Credit Facility issued by the Credit Facility Provider securing the Bonds.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, New York, 10041; and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof and which do not purport to be complete or definitive, and reference is made to such documents and reports for a full and complete statement of the contents thereof.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority and the District.

WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY

By: /s/ Donald D. Galleano
Chairman

WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY

By: /s/ John V. Rossi
General Manager

APPENDIX A
INFORMATION REGARDING THE COUNTY OF RIVERSIDE
GENERAL INFORMATION

Set forth below is certain information with respect to the County. Such information was prepared by the County except as otherwise indicated.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 2,217,778 as of January 1, 2011, representing an approximately 1% increase over the County's population as estimated by the 2010 Census, following an increase of approximately 42% over the prior decade. For the eleven year period of January 1, 2000 to January 1, 2011, the County's population grew by over 600,000, ranking it as one of the major growth areas in the nation. During this period, nine cities and the unincorporated County area each grew by over 20,000 persons. The largest population increase was in Murrieta, which added over 59,000 to its population. This is followed by Riverside, Temecula, Moreno Valley, Indio, Corona, Beaumont, Lake Elsinore and La Quinta. The city of Beaumont experienced the most rapid growth rate. Several areas in the unincorporated County also grew rapidly. These include Eastvale (which incorporated in 2010), Temescal Canyon, the El Sobrante/Lake Matthews/Woodcrest area, Winchester, French Valley, and the unincorporated area north of Indio. Much of the growth in the City of Menifee occurred during this period while it was an unincorporated area. Currently, the growth in the County has tempered due to the economy. Between January 1, 2010 and January 1, 2011, the County population increased by approximately 1%, a rate close to the statewide average.

The following table sets forth annual population figures, as of January 1 of each year, for cities located within the County for each of the years listed:

COUNTY OF RIVERSIDE
POPULATION OF CITIES WITHIN THE COUNTY
(As of January 1)

CITY	2008	2009	2010	2011
Banning	28,148	28,551	29,507	29,844
Beaumont	31,317	32,448	36,496	38,195
Blythe	21,627	21,346	20,873	20,158
Calimesa	7,423	7,504	7,853	7,941
Canyon Lake	10,994	11,143	10,528	10,647
Cathedral City	51,972	52,508	51,037	51,603
Coachella	40,317	41,043	40,464	41,502
Corona	146,698	148,770	151,854	153,649
Desert Hot Springs	25,939	26,584	25,852	27,383
Eastvale	-	-	-	54,303
Hemet	73,205	74,931	78,335	79,607
Indian Wells	5,000	5,099	4,941	5,010
Indio	80,962	82,325	75,122	77,165
Lake Elsinore	49,556	50,324	51,445	52,503
La Quinta	42,743	43,830	37,307	37,836
Menifee	-	67,819	77,267	79,444
Moreno Valley	182,945	186,515	192,654	195,216
Murrieta	99,576	100,835	103,085	104,459
Norco	27,143	27,189	27,066	27,060
Palm Desert	50,686	51,570	48,132	49,111
Palm Springs	47,019	47,653	44,385	45,002
Perris	53,340	54,387	67,879	69,781
Rancho Mirage	16,975	16,938	17,168	17,463
Riverside	296,191	300,769	302,814	306,779
San Jacinto	35,491	36,521	44,043	44,597
Temecula	99,873	102,713	99,611	101,657
Wildomar	-	31,374	32,006	32,543
TOTALS				
Incorporated	1,525,140	1,650,689	1,677,724	1,760,548
Unincorporated	553,461	459,193	501,968	457,320
County-Wide	2,078,601	2,109,882	2,179,692	2,217,778
California	37,883,992	38,255,508	37,223,900	37,510,766

Source: State Department of Finance, Demographic Research Unit.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other than labor- related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments fines, fees, penalties, etc.) and personal contributions to social security insurance and federal retirement payroll deductions. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County and the State for the period 2007 through 2011.

RIVERSIDE COUNTY AND CALIFORNIA
TOTAL EFFECTIVE BUYING INCOME,
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME AND
PERCENT OF HOUSEHOLDS WITH INCOMES OVER $50,000(1)

	Total Effective Buying Income[2]	Median Household Effective Buying Income	Percent of Households with Income over $50,000
2007			
Riverside County	$ 38,631,365	$45,310	44.3%
California	$814,894,437	$48,203	47.9%
2008			
Riverside County	$ 40,935,407	$46,958	46.2%
California	$832,531,445	$48,952	48.8%
2009			
Riverside County	$ 40,935,686	$46,852	46.2%
California	$832,528,809	$48,915	48.7%
2010			
Riverside County	$ 41,337,856	$47,080	46.6%
California	$844,822,042	$49,736	49.7%
2011			
Riverside County	$ 38,492,225	$44,253	43.07%
California	$801,393,028	$47,117	46.78%

(1) Estimated.
(2) Dollars in thousands.

Source: Survey of Buying Power, Sales & Marketing Management Magazine, 2007 and 2008, and Nielson Solution Center for 2009, 2010 and 2011.

Industry And Employment

The County is a part of the Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing commercial and service sector employment, as reflected in the following table.

RIVERSIDE-SAN BERNARDINO-ONTARIO PMSA
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY(1)
(IN THOUSANDS)

INDUSTRY	2007	2008	2009	2010	November 2011[2]
Agriculture	16.4	15.9	14.9	14.8	14.2
Construction	112.5	90.7	67.9	59.5	57.1
Finance Activities	49.8	46.1	42.5	41.1	40.1
Government	225.3	229.9	228.4	224.3	226.0
Manufacturing:	118.5	106.9	88.8	84.6	85.0
Nondurables	36.5	34.3	30.6	29.6	29.7
Durables	82.1	72.5	58.1	55.0	55.3
Natural Resources and Mining	1.3	1.2	1.1	1.0	1.1
Retail Trade	175.6	168.6	156.2	154.6	161.0
Professional, Education and other Services	446.2	441.3	419.0	414.9	427.1
Transportation, Warehousing and Utilities	69.5	70.2	66.8	66.5	69.8
Wholesale Trade	56.8	54.1	48.9	48.8	52.5
Information, Publishing and Telecommunications	15.4	14.9	15.1	15.9	16.3
Total, All Industries	1,287.3	1,239.7	1,149.7	1,126.0	1,151.2

(1) The employment figures by industry which are shown above are not directly comparable to the "Total, All Industries" employment figures due to rounded data.
(2) Preliminary.
Source: State Employment Development Department, Labor Market Information Division.

The following table sets forth the major employers located in the County as of 2011:

COUNTY OF RIVERSIDE
CERTAIN MAJOR EMPLOYERS[1]
(2011)

Company Name	Product/Service	No. of Local Employees[2]
County of Riverside	County Government	17,702
March Air Reserve Base	Military Reserve Base	9,000
Stater Bros. Markets	Supermarkets	6,900
University of California, Riverside	University	5,790
Wal-Mart	Retail Store	5,360
Corona-Norco Unified School District	School District	4,686
Pechanga Resort & Casino	Casino & Resort	4,000
Riverside Unified School District	School District	3,796
Moreno Valley Unified School District	School District	3,500
Hemet Unified School District	School District	3,238

(1) Certain major employers in the County may have been excluded because of the data collection methodology used by Riverside County Economic Development Agency.
(2) Includes employees within the County; includes, under certain circumstances, temporary, seasonal and per diem employees.
Source: County Economic Development Agency

Unemployment statistics for the County, the State and the United States are set forth in the following table.

COUNTY OF RIVERSIDE
COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA

	2006	2007	2008	2009	2010	2011
County[(1)]	5.0%	6.0%	8.5%	13.6%	14.7%	12.8%[(2)]
California[(1)]	4.9	5.3	7.2	11.4	12.4	11.3[(2)]
United States[(3)]	4.6	4.6	5.8	9.3	9.6	8.9

(1) Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.
(2) Monthly data for November 2011.
(3) Data is seasonally adjusted.

Source: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics

Commercial Activity

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are five regional shopping malls in the County: Galleria at Tyler (Riverside), Hemet Valley Mall, Westfield Palm Desert Shopping Center, Moreno Valley Mall and the Promenade at Temecula. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

The following table sets forth taxable transactions in the County for the years 2005 through 2009, the latest full year for which data is currently available:

COUNTY OF RIVERSIDE
TAXABLE SALES TRANSACTIONS
(IN THOUSANDS)

	2005	2006	2007	2008	2009
Apparel Stores	990,129	$ 1,080,385	$1,171,013	$1,121,543	$1,293,271
General Merchandise Stores	3,021,908	3,250,377	3,272,665	3,081,989	2,855,733
Drug Stores	282,566	303,177	320,469	307,947	288,768
Food Stores	1,197,438	1,309,782	1,352,609	1,254,366	1,144,235
Packaged Liquor Stores	74,828	78,895	84,397	98,338	106,981
Eating and Drinking Places	2,157,801	2,316,422	2,388,039	2,340,554	2,266,853
Home Furnishing and Appliances	964,629	948,217	843,945	816,379	858,098
Building Materials & Farm Implements	2,756,280	2,738,153	1,961,911	1,435,337	1,128,595
Auto Dealers & Supplies	4,474,566	4,326,040	4,301,385	3,115,036	2,449,747
Service Stations	2,277,082	2,630,716	2,835,690	3,011,476	2,300,247
Other Retail Stores	2,641,985	2,860,181	2,710,393	2,106,283	1,364,956
Retail Stores Total	$20,839,212	$21,842,345	$21,242,516	$18,689,249	$16,057,488
All Other Outlets	7,417,279	7,973,892	7,781,093	7,314,346	6,170,390
Total All Outlets	$28,256,491	$29,816,237	$29,023,609	$26,003,595	$22,227,878

Source: California State Board of Equalization, Research and Statistics Division.

For the third quarter of 2010, the latest period for which the California State Board of Equalization has published information, taxable sales in the County were approximately $5.5 billion, representing a 3.1% increase over the same period in the prior year.

Building and Real Estate Activity

The two tables below are a five-year summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) since 2007.

COUNTY OF RIVERSIDE
BUILDING PERMIT VALUATIONS
(IN THOUSANDS)

RESIDENTIAL	2007	2008	2009	2010	2011
New Single-Family	$2,207,320	$1,214,752	$ 891,825	$ 914,058	$ 651,747
New Multi-Family	238,316	243,741	76,717	71,152	115,064
Alterations and Adjustments	141,996	118,490	85,148	94,429	119,684
Total Residential	$2,587,832	$ 1,576,983	$1,053,690	$1,079,639	$ 886,495
NON-RESIDENTIAL					
New Commercial	$ 682,331	$ 539,944	$ 94,653	$ 191,324	$ 152,160
New Industry	184,506	70,411	12,278	6,686	10,000
New Other[(1)]	240,765	138,766	107,334	98,105	99,898
Alterations & Adjustments	350,539	292,694	162,557	243,265	297,357
Total Nonresidential	$1,458,141	$1,041,815	$ 376,822	$ 539,380	$ 559,415
TOTAL ALL BUILDING	$4,045,973	$2,618,798	$1,430,512	$1,619,019	$1,445,910

(1) Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: Construction Industry Research Board.

COUNTY OF RIVERSIDE
NUMBER OF NEW DWELLING UNITS

	2007	2008	2009	2010	2011
Single Family	9,763	3,815	3,424	4,031	2,676
Multi-Family	2,690	2,104	784	526	1,073
TOTAL	12,453	5,919	4,208	4,557	3,749

Source: Construction Industry Research Board

The following table sets forth a comparison of median housing prices for Los Angeles County, Riverside County and Southern California for the years indicated.

COUNTY OF RIVERSIDE
COMPARISON OF MEDIAN HOUSING PRICES

Year	Los Angeles	Riverside	San Bernardino	Southern California[(1)]
2006	$515,000	$419,000	$365,000	$481,000
2007	535,000	395,000	355,000	487,000
2008	400,000	260,000	225,000	340,000
2009	320,000	190,000	150,000	270,000
2010	335,000	200,000	155,000	290,000
2011	315,000	195,000	150,000	280,000

(1) Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.

Source: MDA DataQuick Information Systems.

The following table sets forth a comparison of home and condominium foreclosures recorded in Los Angeles County, Riverside County, San Bernardino County and Southern California for the years indicated.

COUNTY OF RIVERSIDE
COMPARISON OF HOME FORECLOSURES

Year	Los Angeles	Riverside	San Bernardino	Southern California[1]
2006	1,997	1,778	1,011	7,355
2007	12,466	12,497	7,746	46,086
2008	35,366	32,443	23,601	125,117
2009	29,943	25,309	19,757	100,106
2010	26,827	20,598	16,757	86,853
2011	25,454	17,381	14,181	77,003

(1) Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.

Source: MDA DataQuick Information Systems.

Agriculture

Agriculture remains an important source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, bell peppers, dates, lemons and avocados.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The value of agricultural production in the County for 2006 through 2010 is presented in the following table.

COUNTY OF RIVERSIDE
VALUE OF AGRICULTURAL PRODUCTION

	2006	2007	2008	2009	2010
Citrus Fruits	$107,897,000	$121,387,100	$135,759,800	$101,652,000	$140,501,000
Trees and Vines	191,321,200	189,286,500	173,678,000	191,682,600	164,994,000
Vegetables, Melons, Miscellaneous	213,643,300	234,854,700	266,414,900	221,286,700	292,002,200
Field and Seed Crops	68,611,700	94,492,000	123,545,400	69,699,800	81,328,300
Nursery	270,992,800	272,326,200	230,416,200	206,499,900	169,341,300
Apiculture	3,554,300	3,948,900	5,637,000	5,017,600	4,631,700
Aquaculture Products	11,514,700	9,829,200	12,077,700	5,243,900	4,921,700
Total Crop Valuation	$867,535,000	$ 926,124,600	$ 947,529,000	$ 801,082,500	$857,720,200
Livestock and Poultry Valuation	234,903,400	338,938,600	321,060,900	214,672,800	235,926,300
Grand Total	$1,102,438,400	$1,265,063,200	$1,268,589,900	$1,015,755,300	$1,093,646,500

Source: Riverside County Agricultural Commissioner

Transportation

Several major freeways and highways provide access between the County and all parts of Southern California. State Route 91 extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses most of the width of the County, the western-most portion of which links up with major cities and freeways in Los Angeles County and the southern part of San Bernardino County, with the eastern part linking to the County's desert cities and Arizona. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. State Route 60 provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Currently, Metrolink provides commuter rail service to Los Angeles, San Bernardino and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with stops in Riverside and Indio. Freight service to major west coast and national markets is provided by two transcontinental railroads -- Union Pacific Railroad and the Burlington Northern and Santa Fe Railway Company. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. There are also four municipal transit operators in the western County providing services within the cities of Banning, Beaumont, Corona and Riverside. The SunLine Transit Agency provides local bus service throughout the Coachella Valley, including the cities of Palm Springs and Indio. The Palo Verde Valley Transit Agency provides service in the far eastern portion of the County (City of Blythe and surrounding communities).

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by the Los Angeles Department of Airports. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Reserve Base, which converted from an active duty base to a reserve-only base on April 1, 1996. The March AFB Joint Powers Authority (the "JPA"), comprised of the County and the Cities of Riverside, Moreno Valley and Perris, is responsible for planning and developing joint military and civilian use. The JPA has constructed infrastructure improvements, entered into leases with private users and initialized a major business park project.

Education

There are four elementary school districts, one high school district, eighteen unified (K-12) school districts and four community college districts in the County. Ninety-five percent of all K-12 students attend schools in the unified school districts. The three largest unified school districts are Corona-Norco Unified School District, Riverside Unified School District and Moreno Valley Unified School District.

There are seven two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also three universities located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist University.

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APPENDIX B
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions of the Master Agreement, the Installment Purchase Agreement and the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Master Agreement, the Installment Purchase Agreement and the Indenture for a full and complete state of their provisions.

MASTER AGREEMENT

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

"Adjusted Annual Debt Service" means, for any Fiscal Year or twelve (12) calendar month period, the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period minus the amount of such Annual Debt Service paid from the proceeds of Parity Obligations or from any interest earnings on and releases of amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

"Adjusted Annual Net Revenues" means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Revenues during such Fiscal Year or twelve (12) calendar month period minus the Maintenance and Operation Costs during such Fiscal Year or twelve (12) calendar month period.

"Adjusted Annual Revenues" means, for any Fiscal Year or twelve (12) calendar month period, the Revenues during such Fiscal Year or twelve (12) calendar month period minus any interest earnings from amounts on deposit in all Reserve Funds established in connection with Parity Obligations, as set forth in a Certificate of the District.

"Ad Valorem Taxes" means, for any period, the ad valorem property taxes received by the District during such period pursuant to Article XIIIA of the California Constitution and Section 95 et seq. of the California Revenue and Taxation Code, including any such taxes levied to pay any voter approved general obligation indebtedness of the District.

"Annual Debt Service" means, for any Fiscal Year or twelve (12) calendar month period, the Parity Payments required to be made under all Parity Obligations in such Fiscal Year or twelve (12) calendar month period.

"Assumed Interest Rate" means the amount of interest calculated in accordance with the following provisions:

(A) Generally. Except as otherwise provided in subparagraph (B) below with respect to Variable Interest Rate Contracts, in subparagraph (C) below with respect to Obligations with respect to which a Payment Agreement is in force, and in subparagraph (D) below with respect to Balloon Contracts and in subparagraph (E) below with respect to BABs, interest on any Obligation shall be calculated based on the actual amount of interest that is payable under such Obligation;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to (i) the average rate that accrued on such Variable Interest Rate Contract over the preceding 12 months, or (ii) if the Variable Interest Rate Contract has not been accruing interest at a variable rate for 12 months, 100% of the average rate of interest for SIFMA Index for a tax-exempt Variable Rate Interest Rate Contract and one month LIBOR for a Taxable Variable Interest Rate Contract;

(C) Interest on Obligations with respect to which a Payment Agreement is in force. Interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Obligation and when taken together with the District's obligations under the Payment Agreement, including but not limited to the effects that (i) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Obligation plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Obligation, the following assumptions shall be made:

(1) District Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net variable interest rate payable by the District with respect to such Obligation and when taken together with the District's obligations under the Payment Agreement, the interest rate on such Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the District, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with paragraph (B) above; and

(2) District Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net fixed interest rate payable by the District with respect to such Obligation and when taken together with the District's obligations under the Payment Agreement, the interest on such Obligation shall be included in the calculation of Payments (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(D) Interest on Balloon Contracts. If any outstanding Obligations constitute Balloon Contracts (and such Obligations do not constitute Short-Term Obligations or if Obligations proposed to be incurred would constitute Balloon Contracts (and such Obligations would not constitute Short-Term Obligations excluded from the calculation of the Payments pursuant to clause (E), below), then such Balloon Contracts shall be treated as if the principal amount of such Obligations were amortized pursuant to any of the following mechanisms: (i) if an irrevocable commitment from a credit facility the provider of which is rated at least "P1" by Moody's or "A1" by S&P is in effect to pay the balloon debt when it comes due, then the terms of the contractual obligation to repay the credit facility may be used, (ii) if balloon debt is subject to prior amortization payments and the verification of timely installment payments are contained in the last audited financial statement of the District, then such amortization payments may be used, or (iii) amortization may be assumed on a level debt service basis over a twenty-year period at an interest rate based on the last published SIFMA Index. Notwithstanding the foregoing, the full amount of balloon debt shall be included in any debt service calculation if the calculation is made within 12 months of the actual maturity of such balloon debt and no credit facility exists;

(E) Interest on BAB. Interest deemed payable on any BAB shall be based on the net economic effect on the District expected to be produced by the receipt by the District of cash subsidy payments from the U.S. Treasury equal to 35% (or such other percentage as may be then applicable) of the interest payable on the BAB so long as such subsidy payments are pledged to the repayment of the BAB under the applicable Issuing Document.

(F) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with the Trustee, then the interest payable from such amounts with respect to the Obligations shall be disregarded and not included in calculating Payments.

"Authority" means the Western Municipal Water District Facilities Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State.

"Average Annual Debt Service" means the sum of the Annual Debt Service for the remaining Fiscal Years to the last Fiscal Year in which any Parity Payments are due under any Outstanding Supplemental Contracts divided by the number of such Fiscal Years.

"BAB" means any Obligations issued as a Build America Bond under the American Recovery and Reinvestment Act of 2009 and as such act may be amended from time to time and any Obligation issued under any other similar act pursuant to which the issuer of taxable bonds receives a cash subsidy or related payment from the U.S. Treasury.

"Balloon Contract" means an Obligation 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Obligation was incurred to be amortized by payment or redemption prior to such date.

"Balloon Installment Payments" means any Payments designated as such in any Balloon Contract.

"Board of Directors" means the Board of Directors of the District.

"Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the cities in which the designated office of a particular trustee, paying agent, remarketing agent or credit facility provider are located with respect to an Issuing Document, are required or authorized by law or executive order to close, and (iii) a day on which banks in New York Stock Exchange is closed.

"Certificate of the District" means an instrument in writing signed by the President, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

"Chief Financial Officer" means the Chief Financial Officer of the District.

"Code" means the Internal Revenue Code of 1986, and all then applicable regulations issued thereunder.

"Common Reserve" means all Reserve Funds established with respect to Parity Obligations which have been designated by the District pursuant to the Master Agreement to be a part of the Common Reserve.

"Common Reserve Requirement" means, as of any date of computation by the District, an amount equal to the lowest of (i) Maximum Annual Debt Service on all Outstanding Parity Obligations entitled to the benefit of the Common Reserve; (ii) 1.25 times the average Annual Debt Service on all Outstanding Parity Obligations entitled to the benefit of the Common Reserve; and (iii) ten percent (10%) of the initial principal amount (provided that sale price shall be used in lieu of principal amount if there is more than a diminimis amount of net original issue discount or premium) of all Parity Obligations entitled to the benefit of the Common Reserve; provided, however, that, if, upon issuance of a Parity Obligation entitled to the benefit of the Common Reserve, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Parity Obligations in an amount in excess of the maximum amount permitted under the Code, the Common Reserve Requirement shall mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Parity Obligation and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Parity Obligation, as certified in a Certificate of the District.

"Contract Resource Obligation" means an obligation of the District, designated as a Contract Resource Obligation to make payments for Service or any other commodity or service to another person or entity.

"Contracts" means the Master Agreement and all Supplemental Contracts.

"Coverage Requirement" means, for any Fiscal Year or twelve (12) calendar month period, an amount of Adjusted Annual Net Revenues:

(i) which equals at least one hundred ten percent (110%) of the Adjusted Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and

(ii) which is sufficient to cover payments due on all Parity Obligations and Subordinate Obligations for such Fiscal Year or (12) calendar month period (but excluding payments that are one-time or extraordinary payments, such as termination payments on Payment Agreements)

Provided, that, for purposes of determining compliance with the Coverage Requirement, it shall be assumed that all Obligations accrue interest at the applicable Assumed Interest Rate.

"Credit Facility" means a letter of credit, standby purchase agreement, liquidity agreement or other similar agreement issued by a Credit Facility Provider to secure payments due with respect to a Supplemental Contract or with respect to any obligation which is payable from the payments due under a Supplemental Contract.

"Credit Facility Agreement" means, any agreement entered into between the District and a Credit Facility Provider with respect to any Supplemental Contract.

"Credit Facility Provider" means a bank trust company, national banking association, insurance company or other financial services company or entity issuing a Credit Facility.

"Date of Operation" means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an Independent Engineer, will be ready for continuous and reliable operation by the District.

"District" means Western Municipal Water District of Riverside County, a California water district duly organized and existing under and by virtue of the Law.

"Engineer's Report" means a report signed by an Independent Engineer.

"Event of Default" means an event described in the Master Agreement.

"First Supplemental Contracts" means that certain Installment Purchase Agreement (Series 2009A) executed and entered into as of May 1, 2009, by and between the District and the Authority, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith, and also includes that certain Installment Purchase Agreement (Series 2009B) executed and entered into by and between the District and the Authority as originally entered into and as it may from time to time be amended or supplemented in accordance therewith, provided, however, that for the purposes of exclusion from Section 3.02, such Installment Purchase Agreement (Series 2009A) must be executed within 90 days of the other, each provided further that the aggregate principal amount represented by the First Supplemental Contracts shall not exceed $125,000,000.

"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 hereafter selected and designated by the Board of Directors as the Fiscal Year of the District.

"Fitch" means Fitch Ratings Inc., and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Authority or the District, with notice to the

Trustee, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

"General Obligation Bonds" means any outstanding general obligation bonds of the District for which the voters of the District have authorized the District to levy annual assessments or Ad Valorem Taxes unlimited as to rate or amount as a source of repayment for such bonds.

"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.

"Government Obligations" means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America, or (c) any fund or other pooling arrangement whose assets consist exclusively of the obligations listed in clause (a) or (b) of this clause (i) and which is rated at least "P-1" by Moody's; provided that, such obligations shall not include unit investment trusts or mutual fund obligations;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated "Aaa" by Moody's and "AAA" by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank or the Federal National Mortgage Association; provided that such bonds, debentures or notes shall be the senior obligations of such agencies (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

"Improvement Fund" means the Western Municipal Water District of Riverside County Improvement Fund established the Master Agreement.

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

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

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

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

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

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

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

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

"Initial Payment Agreement" means the ISDA Master Agreement, Schedule and Credit Support Annex, each dated as of November 4, 2008 and the Confirmation dated November 4, 2008 each between the District and Merrill Lynch Capital Services, Inc., or its successors or assigns, each as amended from time to time.

"Initial Payment Agreement Counterparty" means Merrill Lynch Capital Services, Inc., or its successor or assigns under the Initial Payment Agreement.

"Interest Payment Date" means a date on which any interest installment of the Payments is due and payable.

"Issuing Document" means any indenture, trust agreement or other document the obligations issued or delivered pursuant to which are secured in whole or in part by Payments.

"Law" means the California Water Code, and all laws amendatory thereof or supplemental thereto.

"LIBOR" means the interest rate per annum equal to the consensus rate then being offered by major international banks on Eurodollar deposits with an original maturity of thirty (30) days as quoted on the Reuter's London Interbank Offered Rate page on Telerate or, if no longer quoted thereon, determined by reference to such other comparable source determined by the applicable Issuing Document.

"Maintenance and Operation Costs" means all reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including the cost of purchased water, scheduled payments on Contract Resource Obligations, all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums and payments into pension funds, and all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Master Agreement or of any resolution authorizing the execution of any Supplemental Contract or of such Supplemental Contract, such as compensation, reimbursement and indemnification of the Trustee and fees and expenses of Independent Certified Public Accountants and Independent Engineers, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

"Master Agreement" means the Master Installment Purchase Agreement executed and entered into as of May 1, 2009, by and between the District and the Authority, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance with the Master Agreement.

"Maximum Annual Debt Service" means the highest Annual Debt Service for any Fiscal Year or twelve (12) calendar month period through the final maturity date of all Outstanding Parity Obligations; provided, however, for purposes of such calculation, the interest on all Parity Obligations shall be computed at the applicable Assumed Interest Rate.

"Moody's" means Moody's Investors Service, a corporation organized and existing under of the laws of the State of Delaware, and its successors, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Authority or the District, with notice to the Trustee, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

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

"Net Revenues" means, for any period, the Revenues during such period less the Maintenance and Operation Costs during such period.

"Obligations" means all Parity Obligations and all Subordinate Obligations.

"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 satisfactory to the Trustee (who shall be under no liability by reason of such approval).

"Outstanding" means, with respect to the Payments, all Payments which have not been paid or otherwise satisfied as provided in Article VI, and with respect to the Supplemental Contracts, all Supplemental Contracts the Payments under which have not been paid or otherwise satisfied as provided in Article VI.

"Parity Obligation Payment Fund" means the Western Municipal Water District Parity Obligation Payment Fund established under the Master Agreement.

"Parity Obligations" means all Supplemental Contracts, Credit Facility Agreements and Payment Agreements, the payments under which (other than Termination Payments) are secured by a senior lien on Net Revenues and are payable on a parity therefrom.

"Parity Payment Agreement" means a Payment Agreement which is a Parity Obligation.

"Parity Payments" means: (i) all installment payments to be paid by the District under any Parity Obligation, (ii) other debt service payments scheduled to be paid by the District under all Parity Obligations and (iii) all regularly scheduled payments under a Parity Payment Agreement (including, but not limited to, the Initial Payment Agreement). Parity Payments shall not include any payments to be made with respect to a loan under a Credit Facility Agreement unless and until such a loan is originated and payments are due from the District and shall not include payments made by the District on such a loan from funds of the District other than Net Revenues.

"Parity Payments Date" means the date on which any Parity Payments are due on a Parity Obligation.

"Payment Agreement" means a written agreement for the purpose of managing or reducing the District's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the District and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Obligation, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device, including, without limitation, the Initial Payment Agreement.

"Payment Agreement Payments" means the regularly scheduled payments periodically required to be paid by the District to all Qualified Counterparties under all Payment Agreements.

"Payment Agreement Receipts" means the amounts periodically required to be paid by all Qualified Counterparties to the District under all Payment Agreements.

"Payment Date" means any date on which Payments are scheduled to be paid by the District.

"Payments" means the Parity Payments and the Subordinate Payments.

"Permitted Encumbrances" means, with respect to the System or any part thereof (a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith by the District, (b) covenants, easements, encumbrances, defects of title, reservations, restrictions and conditions existing at the time of execution of the Master Agreement, (c) defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations and clouds on title that do not materially impair the use of the property affected thereby for its intended purposes, (d) mechanics', workers', repairmen's, architects', engineers', surveyors', or carriers' liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith with any pending execution thereof appropriately stayed, (e) other liens, charges and encumbrances that, as set forth in a certificate of an Independent Engineer and in a written opinion of counsel to the District, copies of which are filed with the Trustee, do not materially impair the use of the System (for purposes of the Master Agreement, counsel to the District may rely upon the certificate of the Independent Engineer as to whether such liens, charges and encumbrances prevent or materially impair the use of the System), (f) encumbrances on property, plant and equipment comprising a part of the System to the extent permitted by the Master Agreement and (g) liens on cash or securities of the District delivered to a Qualified Counterparty to secure the District's obligations under a Payment Agreement.

"Permitted Investments" means any investment which is a legal investment for funds of the District under the laws of the State of California and as shall be permitted under any Issuing Document.

"President" means the President of the Board of Directors.

"Principal Payment Date" means a date on which any principal installment of the Payments is due and payable.

"Project" means any additions, betterments and improvements to the System designated by the Board of Directors in a Supplemental Contract as a designated Project, the acquisition and construction of which (together with the incidental costs and expenses related thereto) will be financed or refinanced by the proceeds of any Supplemental Contract as provided therein.

"Project Accounts" means collectively all the accounts established in the Improvement Fund by all the Supplemental Contracts to finance the acquisition and construction of all the Projects.

"Qualified Counterparty" means the Initial Payment Agreement Counterparty and any party (other than the District or a party related to the District) whose senior debt obligation are the other party to a Payment Agreement and (1) (a) who is rated at the time of execution of the Payment Agreement at least equal to the long-term ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of "A" from Fitch, "A2" from Moody's and "A" from S&P, or guaranteed by an entity so rated (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at the time of execution of the Payment Agreement at least equal to the long-term ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments (without regard to any gradations within a rating category), but in no event less than a rating of "A" from Fitch, "A2" from Moody's and "A" from S&P, or (c) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain long-term rating at least equal to the ratings assigned by each of the Rating Agencies to the obligations issued by or on behalf of the District and secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

"Rate Stabilization Fund" means the Western Municipal Water District of Riverside County Rate Stabilization Fund established under the Master Agreement.

"Rating Agency" means Moody's, Fitch and S&P, or any other nationally recognized municipal securities rating agency selected by the Authority that is then rating any obligations secured by Parity Payments at the request of the Authority or the District.

"Reserve Facility" means an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit, insurance policy, surety bond or other similar credit arrangement, issued by a bank or a financial institution or municipal bond insurer whose long-term obligations are rated in one of the two highest rating categories by each Rating Agency.

"Request of the District" means an instrument in writing signed by the Director of Finance, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

"Reserve Fund" shall have the meaning given to such term in any Issuing Document or Supplemental Contract.

"Reserve Fund Credit Facility Costs" means the repayment of draws, expenses and accrued interest or other similar costs payable in connection with a line of credit, letter of credit, insurance policy, surety bond or other credit source deposited with the Trustee for the credit of a Reserve Fund.

"Revenue Fund" means the Western Municipal Water District Revenue Fund established under the Master Agreement.

"Revenues" means all income and revenue received or receivable by the District during such period from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, together with all Ad Valorem Taxes, ad valorem assessments, standby charges, rates, fees and charges received by the District for the Service and the other services of the System and all proceeds of insurance covering business interruption loss relating to the System and all added facilities charges, service installation charges, distribution system fees and charges payable to the District for the Service made available or provided by the System and all payments for the lease of property comprising a part of the System and all other income and revenue howsoever derived by the District from the ownership or operation of the System or arising from the System, and including all Payment Agreement Receipts, and including all income from the investment of amounts on deposit in the Revenue Fund, the Parity Obligation Payment Fund, and the Rate Stabilization Fund, but excluding in all cases (i) any proceeds of taxes (including Ad Valorem Taxes) and assessments levied and collected by or on behalf of the District for obligations that are payable solely from such taxes (including Ad Valorem Taxes) or assessments and not from any other Revenues, (ii) any refundable deposits made to establish credit and any advances or contributions of or in aid of construction, and (iii) any income from the investment of amounts on deposit in the Improvement Fund. Notwithstanding the foregoing, solely for purposes of Coverage Requirement, there shall be deducted from Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by the Master Agreement, and there shall be added to Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by the Master Agreement.

Amounts on deposit in the Rent Stabilization Fund shall not be included in calculating Revenues for purposes of satisfying the conditions for exceeding Parity Obligations.

"Separate Reserve Fund" means a Reserve Fund, created pursuant to an Issuing Document for a Parity Obligation, that is not a part of the Common Reserve.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., and its successors, but only to the extent that such entity is then rating any obligations secured by Parity Payments at the request of the Authority.

"Service" means the water delivery, wastewater collection and treatment services furnished and all other contractual services provided by the District, made available or provided by the System.

"Short-Term Obligations" means Obligations having an original maturity of less than or equal to one year and which are not renewable at the option of the District for a term greater than one year beyond the date of original incurrence and includes, without limitation, obligations issued in connection with a commercial paper program and tax revenue anticipation notes..

"SIFMA Index" means on the Securities Industry and Financial Markets Association Municipal Swap Index as disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor, for the most recently preceding Business Day or any other such index as may be determined by the Authority should SIFMA no longer publish rates.

"State" means the State of California.

"Subordinate Obligations" means all Supplemental Contracts or Payment Agreements the payments under which are secured by the subordinate lien on Net Revenues created under the Master Agreement and are payable on a parity therefrom, including, but not limited to, Termination Payments related to a Parity Payment Agreement.

"Subordinate Payment Agreements" means a Payment Agreement which is a Subordinate Obligation.

"Subordinate Payments" means (i) all installment payments to be paid under any Subordinate Obligation, (ii) other debt service payments scheduled to be paid by the District under all Subordinate Obligations, (iii) Termination Payments payable pursuant to the Initial Parity Payment Agreement, and (iv) all regularly scheduled payments under a Subordinate Payment Agreement.

"Supplemental Contracts" means all installment purchase contracts supplemental to the Master Agreement executed and entered into by the District and the Authority under and pursuant to the Master Agreement and applicable law, as originally executed and entered into and as they may from time to time be amended or supplemented in accordance with the Master Agreement and therewith.

"System" means all facilities for providing the water delivery, wastewater collection and treatment services and all other contractual services provided by the District now owned by the District and all other facilities acquired and constructed by the District and determined to be a part of the System, together with all additions, betterments and improvements to such facilities or any part thereof hereafter acquired and constructed by the District.

"Tax Certificate" means any certificate or agreement delivered with respect to the maintenance of the tax-exempt status of Payments the interest component of which is intended to be excluded from gross income pursuant to Section 103 of the Code.

"Termination Payments" means any payments payable to a Qualified Counterparty in connection with the termination of a Payment Agreement and all other payments payable to a Qualified Counterparty in connection with a Payment Agreement other than regularly scheduled payments.

"Trustee" means U.S. National Association, a national banking association duly organized and existing under the laws of the United States, as Trustee under each Issuing Document, or any other banking corporation or association that which may at any time be substituted in its place as provided in each Issuing Document; provided, however, that at any given time only one entity shall be the Trustee under all Issuing Documents for the Parity Obligations.

"Variable Interest Rate" means any variable interest rate or rates to be paid under any Obligations, which rate is not fixed through the final maturity of such obligation, the method of computing which variable interest rate shall be as specified in the applicable Obligation, which Obligation shall also specify either (i) the

payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

"Variable Interest Rate Contracts" means, for any period of time, any Obligations that bear a Variable Interest Rate during such period, except that no Obligation shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Payments or such Obligation and interest rates on any other Payments of the same Obligation, as set forth in such Obligation, or the net economic effect of a Payment Agreement with respect to any particular Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Obligation with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

ACQUISITION, CONSTRUCTION AND SALE OF PROJECTS; FUNDS AND PLEDGE

Acquisition, Construction and Sale of Projects. The Authority agrees to finance and refinance the costs of the acquisition and construction of the Projects for and to sell the Projects to the District, and the District agrees to buy the Projects from the Authority; and in order to implement this provision, the Authority appoints the District as its agent for the purpose of such acquisition and construction, and the District agrees to enter into such construction contracts and purchase orders as may be necessary, as agent for the Authority, to provide for the complete acquisition and construction of the Projects, and the District agrees that as such agent it will cause the acquisition and construction of the Projects to be diligently completed after the deposit of funds in the Improvement Fund for such purpose under the Master Agreement, and that it will use its best efforts to cause the acquisition and construction of the Projects to be completed in a timely fashion, unforeseeable delays beyond the reasonable control of the District only excepted. Notwithstanding the foregoing, it is expressly understood and agreed that the Authority shall be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the District for the acquisition and construction of the Projects and that all such costs and expenses shall be paid by the District, regardless of whether the funds deposited in the Improvement Fund are sufficient to cover all such costs and expenses.

Improvement Fund. There is established pursuant to the Master Agreement the "Western Municipal Water District of Riverside California Improvement Fund," which fund the District under the Master Agreement agrees to hold and maintain until the completion of the acquisition and construction of all Projects to be financed from the Project Accounts established in such fund as provided in all Supplemental Contracts; and all money in the Improvement Fund (and interest earnings thereon) shall be used and withdrawn by the District to pay the costs of the acquisition and construction of the Projects (or to reimburse the District for such costs paid by it), including the payment of interest on the Obligations, upon receipt of a Request of the District filed with the Director of Finance in substantially the form attached to the Master Agreement, each of which shall be sequentially numbered and shall state the person or entity to whom payment is to be made, the amount of money to be paid, the purpose for which the obligation to be paid was incurred and that such payment is a proper charge against the related Project Account in the Improvement Fund and has not been the subject of a previous Request of the District. After the completion of the acquisition and construction of each Project to be financed from the related Project Account in the Improvement Fund, any remaining balance of money in such Project Account shall be transferred to the District for any lawful purpose of the District subject to the provisions of any Tax Certificate.

Reserve Funds. In each Supplemental Contract, the District may direct the Authority to establish a Reserve Fund. With respect to each Reserve Fund established with respect to a Parity Obligation, the District may elect to treat such Reserve Fund as a part of the Common Reserve securing all Parity Obligations designated by the District to participate in the Common Reserve; provided that amounts due under the Initial Payment Agreement shall be secured by amounts held under the Common Reserve. Each time that the District elects to secure Parity Obligations with the Common Reserve, it shall deposit funds in the Common Reserve in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement

calculated to take into account such additional Parity Obligations. The Issuing Documents for obligations that are secured by the Common Reserve must use the same trustee or paying agent. If the District establishes a Reserve Fund for any Parity Obligation but does not elect to make such Reserve Fund a part of the Common Reserve, then any Reserve Fund so established will be a Separate Reserve Fund and will secure only the Parity Obligations for which such Reserve Fund was created. The District may establish separate Reserve Funds for any Subordinate Obligations which will secure only the Subordinate Obligations for which such Reserve Fund was created or may create a common Reserve Fund to secure more than one issue of Subordinate Obligations.

With respect to any reserve fund established under a Supplemental Contract which is to be part of a Common Reserve the District or the Authority, as applicable, may satisfy the Common Reserve Requirement by delivering a Reserve Credit Facility to the trustee under the applicable issuing document. Any such Reserve Credit Facility shall provide that it may be drawn on to satisfy debt service shortfalls for any obligation that is secured by the Common Reserve.

The Trustee may withdraw amounts from the Common Reserve in accordance with each Issuing Document to make payments to the owners of the obligations issued under the Issuing Document when due.

Revenue Fund; Pledge of Net Revenues. There is established under the Master Agreement the "Western Municipal Water District of Riverside County Revenue Fund," which fund the District under the Master Agreement agrees to hold and maintain so long as any Payments due under the Master Agreement shall be Outstanding. The District irrevocably grants and pledges the Net Revenues first, to secure Parity Obligations and second, to secure Subordinate Obligations. The lien and pledge to secure Parity Obligations shall constitute a first lien on Net Revenues and the lien and pledge to secure Subordinate Obligations shall constitute a second lien on Net Revenues. The District represents and states that, it has not previously granted any lien or charge on any of the Net Revenues; provided, that out of Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Agreement. All Parity Obligations shall be of equal rank without preference, priority or distinction of any Parity Obligations over any other Parity Obligations. Unless expressly stated to the contrary in a particular Subordinate Obligation, all Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations; provided, however, that Termination Payments with respect to the Initial Parity Payment Agreement shall be paid prior to any payments being made on other Subordinate Obligations. In order to carry out and effectuate the obligation of the District contained in the Master Agreement and in all Supplemental Contracts and Payment Agreements to pay the Payments, the District agrees and covenants that all Revenues received by it shall be deposited when and as received in the Revenue Fund, and all money on deposit in the Revenue Fund shall be applied and used only in the following order as provided in the Master Agreement:

(A) The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due; and

(B) On or before the last Business Day in each month, the District shall, from the remaining money then on deposit in the Revenue Fund, deposit in the "Western Municipal Water District Parity Obligation Payment Fund," which fund the District agrees to hold and maintain so long as any Parity Payments due hereunder shall be Outstanding the following amounts in the following order of priority:

(1) a sum equal to (a) the interest and principal payments becoming due and payable under all Supplemental Contracts that are Parity Obligations, plus (b) regularly scheduled payments or the net payments becoming due and payable on all Parity Payment Agreements (except any Termination Payments), plus (c) any other amounts due with respect to Parity Obligations (including any letter of credit and remarketing fees), in each case, during the next succeeding month; plus

(2) an amount equal to any Termination Payments with respect to the Initial Parity Payment Agreement becoming due and payable; plus

(3) all amounts due to make up any deficiency in the Reserve Funds for Parity Obligations in accordance with the provisions of the applicable Issuing Document, including all Reserve Fund Credit Facility Costs.

From time to time, moneys on deposit in the Parity Obligation Payment Fund shall be transferred by the District to the Trustee or other third party payee thereof in accordance with the terms of the Parity Obligations to make and satisfy the Parity Payments due on the next applicable Payment Dates on such Parity Obligations.

Moneys on deposit in the Parity Obligation Payment Fund for payment of Termination Payments under Parity Payment Agreements under clause (2) above shall be transferred by the District to the applicable counterparty under such Parity Agreement in accordance with the terms of the related Parity Payment Agreement to make and satisfy the Termination Payment payable under such Parity Payment Agreement.

(C) After the payments contemplated by subparagraphs (A) and (B) above have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of the interest and principal payments and other regularly scheduled payments becoming due and payable under all Supplemental Contracts that are Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the Reserve Funds for Subordinate Obligations, including all Reserve Fund Credit Facility Costs) so long as the following conditions are met:

(1) all Maintenance and Operations Costs are being and have been paid and are then current; and

(2) no deficiency in any Reserve Fund for Parity Obligations shall exist and no Reserve Fund Credit Facility Costs shall be due and payable, and there shall have been paid, or segregated within the Revenue Fund, the amounts currently payable pursuant to subparagraphs (A) and (B) above.

(D) After deposits contemplated by subparagraphs (A), (B) and (C) have been made, any amounts thereafter remaining in the Revenue Fund shall be used for the payment of any Termination Payments on all Subordinate Payment Agreements.

(E) After deposits contemplated by subparagraphs (A), (B), (C) and (D) have been made, any amounts thereafter remaining in the Revenue Fund may be used for any lawful purpose.

Rate Stabilization Fund. There is established pursuant to the Master Agreement the "Western Municipal Water District Rate Stabilization Fund," which fund the District agrees to hold and maintain as directed by the District so long as any Payments due under the Master Agreement shall be Outstanding. On the closing date of the First Supplemental Contracts, the District shall deposit $20,000,000 to the Rate Stabilization Fund. The District may at any time deposit in the Rate Stabilization Fund any Net Revenues and any other money available to be used therefore, the District may at any time withdraw from the Rate Stabilization Fund any money therein for the deposit in the Revenue Fund and the District shall withdraw from the Rate Stabilization Fund any money therein for deposit in the Revenue Fund in the event there are insufficient amounts in the Revenue Fund to make the deposits and transfers required by the Master Agreement; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred eighty (180) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining Revenues; and provided further, that no deposit of Net Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period. Interest earnings on amounts in the Rate Stabilization Fund will be transferred to the Revenue Fund immediately upon receipt.

EXECUTION OF SUPPLEMENTAL CONTRACTS

Conditions for the Execution of Parity Obligations. The District may at any time execute any Parity Obligations (other than the Parity Obligations represented by the First Supplemental Contracts payable as provided in the Master Agreement); provided:

There shall be on file with the District either:

(A) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Net Revenues were at least equal to 110% of Maximum Annual Debt Service on all Outstanding Parity Obligations or Supplemental Contracts plus the Parity Obligations proposed to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Net Revenues to reflect:

(1) An allowance for Net Revenues that would have been derived from each new connection to the System that, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in existence, in an amount equal to the estimated additional Net Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or twelve (12) calendar month period, and

(2) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Service that has been adopted and is then in effect but which, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(B) A Certificate of the District based: (a) on audited figures or (b) to the extent audited figures are not available, on figures taken by an Independent Certified Public Accountant from the District's books and records, showing that the estimated Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligations proposed to be executed are executed, or (ii) the date on which substantially all Projects financed with the Parity Obligations proposed to be executed are expected to commence operations, will be at least equal to 110% of the Maximum Annual Debt Service on all Outstanding Parity Obligations plus the parity obligations proposed to be issued and payments on additional Supplemental Contracts (if any Supplemental Contracts are included in the calculations under (b) below for such period; provided, that for the purpose of providing this Certificate of the District, the District may adjust the foregoing estimated Net Revenues to reflect:

(1) An allowance for Net Revenues that would have been derived from any increase in the rates, fees and charges for fixed and prescribed for (i) Service that has been adopted and is then in effect but which, during all or any part of such Fiscal Year or twelve (12) calendar month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or twelve (12) calendar month period; or

(2) An allowance for Net Revenues that are estimated to be derived from customers of the System anticipated to be served by the additions, betterments or improvements to the System to be financed by the Parity Obligations proposed to be executed together with any additional Supplemental Contracts expected to be executed and entered into during such five (5)-year period.

(C) Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute any Parity Obligations at any time to refund any outstanding Parity Obligations so long as the Annual Debt Service payable by the District for each Fiscal Year with respect to such refunding Parity

Obligations is less than or equal to 105% of the Annual Debt Service for each corresponding Fiscal Year for such Parity Obligations being refunded.

Conditions for the Execution of Subordinate Obligations. The District may at any time execute any Subordinate Obligations payable as provided in the Master Agreement; provided that no Event of Default has occurred and is continuing; and provided, further, that, upon the issuance of such Subordinate Obligations, the District shall demonstrate that, during the last audited Fiscal Year or any consecutive twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period Net Revenues were at least equal to 100% of Maximum Annual Debt Service on all Payments.

Procedure for the Execution of Supplemental Contracts. Before the execution of any Supplemental Contract (other than the First Supplemental Contracts), there shall first be delivered to the Director of Finance the following documents or money or securities:

(A) An executed counterpart of the Supplemental Contract;

(B) A Request of the District as to the delivery of such Supplemental Contract;

(C) An Opinion of Counsel to the effect that the Supplemental Contract has been duly and lawfully executed and delivered by the District in accordance with the Law and with the Master Agreement, is in full force and effect and is valid and binding upon the District and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles, the exercise of judicial discretion in appropriate cases and the limitations on legal remedies against California water districts in the State);

(D) A Certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Master Agreement; and

(E) Such further documents, money and securities as are required by the provisions of the Master Agreement and the resolution, indenture, contract or other obligation providing for the issuance of the Obligation.

The provisions of Sections 3.01, 3.02 and 3.03 of the Master Agreement do not apply to Payment Agreements.

COVENANTS OF THE DISTRICT

Compliance with Contracts. The District will punctually pay the Payments in strict conformity with the terms of the Master Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Contracts 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 Projects or the System, 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 of them or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Master Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority, the Trustee 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, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Use of Proceeds. The Authority and the District agree that the proceeds of the Supplemental Contracts will be used by the District, as agent for the Authority, to pay the costs of financing or refinancing the

acquisition and construction of the Projects and to pay the incidental costs and expenses related thereto as provided herein.

Against Encumbrances. Except as otherwise provided in the Master Agreement, the District will not mortgage or otherwise encumber, pledge or place any charge upon the System or any part thereof, except for Permitted Encumbrances. The District shall discharge or cause to be discharged, or shall make adequate provision to satisfy and discharge, within 60 days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the System or the operation of the System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the System or Net Revenues if unpaid. Nothing contained in this section shall require the District to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings.

The District may incur obligations secured by a lien on rolling stock comprising a part of the System without limitation.

Sale or Other Disposition of Property. The District will only sell, transfer or otherwise dispose of any of the facilities of the System or any real or personal property comprising a part of the System consistent with one or more of the following limitations:

The District in its discretion may carry out such a sale, transfer or other disposition (each, as used in this section, a "transfer") if the facilities or property of the System transferred are not material to the operation of the System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or are no longer necessary, material or useful to the operation of the System; or

The District in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of the System transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of the System; or

The District in its discretion may carry out such a transfer if the District receives from the transferee an amount equal to the fair market value of the facilities or property of the System transferred (as used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to the System; provided, that before any such transfer is made under this subparagraph, the District shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the District, the remaining facilities or property of the System will retain their operational integrity and the estimated Adjusted Annual Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the Parity Payments and thereafter, the Subordinate Payments, (y) the estimated additional Revenues from customers anticipated to be served by any additions, betterments or improvements to the System financed by the portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the Certificate of the District under the Master Agreement.

Prompt Acquisition and Construction of the Projects. The District will take all necessary and appropriate steps to acquire and construct the Projects, as agent of the Authority, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the System; Budgets. The District will maintain and preserve the System in good repair and working order at all times and in accordance with sound engineering practices and

will operate the System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. The District will adopt and file with the Authority, not later than 90 days after the start of each Fiscal Year, a budget approved by the Board of Directors setting forth the estimated Revenues and Maintenance and Operation Costs for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the District with the Authority.

Compliance with Contracts for Use of the System. 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 System and all other contracts affecting or involving the System to the extent that the District is a party thereto.

Investment of Amounts in Funds. The District covenants to invest amounts in the Revenue Fund, the Parity Obligation Payment Fund and the Improvement Fund only in Permitted Investments.

Insurance. The District will procure and maintain such insurance relating to the System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with water and wastewater systems comparable to the System; provided, 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 water and wastewater systems in the State comparable to the System and is, in the opinion of an independent accredited actuary, actuarially sound. All policies of insurance required to be maintained herein shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the System and the Revenues and the Maintenance and Operation Costs, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The District will prepare and file with the Authority and the Trustee annually within two hundred ten (210) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2009) 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 and a special report prepared by the Independent Certified Public Accountant who examined such financial statements 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 financial agreements or covenants contained herein.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Master Agreement and the rights of the Authority to the Payments hereunder 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 hereafter be lawfully imposed upon the System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the 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.

Amount of Rates, Fees and Charges. The District will at all times fix, prescribe and collect rates, fees and charges for the Service during each Fiscal Year which are reasonably fair and nondiscriminatory and which are estimated to yield Adjusted Annual Net Revenues for such Fiscal Year in an amount not less than the Coverage Requirement for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees

and charges then in effect unless the Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

Collection of Rates, Fees and Charges. The District will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the System to pay the rates, fees and charges applicable to the Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the 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 and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the System and, so long as no Event of Default exists hereunder, may waive or reduce rates, fees and charges for one or more customers and consumers so long as the total amount waived or reduced does not exceed 1% of Revenues collected in the most recent Fiscal Year and such waiver or reduction, upon implementation, will not cause the District to be in default of its covenant under the Master Agreement.

Eminent Domain and Insurance Proceeds. If all or any part of the System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the System, the Net Proceeds thereof, at the option of the District, shall be applied either to the prepayment of the Payments or to acquire and construct additions, betterments or improvements to the System to replace the condemned or destroyed portion of the System.

Additional Covenants. The District may provide additional covenants pursuant to any Obligations, including covenants relating to any credit support and/or liquidity support obtained for Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of holders of outstanding Obligations.

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 Master Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

EVENTS OF DEFAULT AND REMEDIES

Events of Default. If one or more of the following Events of Default shall happen, that is to say-

(A) if default shall be made in the due and punctual payment of any Payment under any Parity Obligation when and as the same shall become due and payable;

(B) if default shall be made by the District in the performance of any of the agreements or covenants contained herein, other than as described in clause (A) above, or in any Parity Obligation required to be performed by it, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Authority, or the Trustee; or

(C) if the District shall file 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 shall approve 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 shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clauses (A), (B) or (C) above, the Authority shall, by notice in writing to the District given not later than three (3) Business Days after it receives notice of an Event of Default or direction to proceed under an Event of Default, declare an Event of Default hereunder; provided, that if at any time after an Event of Default has been

declared and before any judgment or decree for the payment of the money due shall have been obtained or entered the District shall deposit with the Authority and the Qualified Counterparties, as applicable, a sum sufficient to pay the unpaid principal amount or other amounts of the Payments due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid principal amounts or other amounts of the Payments if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration of an Event of Default and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Net Revenues Upon Event of Default. All Net Revenues upon the date of the declaration of an Event of Default by the Authority as provided in the Master Installment Agreement and all Net Revenues thereafter received shall be applied in the following order –

First, to the payment of the fees, costs and expenses of the Authority and the Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, to the payment of the interest then due and payable on the principal amount of the unpaid Parity Payments (except any Termination Payments), and to the payment of regularly scheduled payments under a Parity Payment Agreement, and, if the amount available shall not be sufficient to pay in full all such interest and regularly scheduled payments then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

Third, to the payment of the unpaid principal amount of the Parity Payments (except any Termination Payments) then due and payable with interest on the overdue principal and interest amounts of the unpaid Parity Payments at the rate or rates of interest then applicable to such Parity Payments if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Parity Payments on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference;

Fourth, to the payment of all Termination Payments with respect to Parity Payment Agreements and, if the amount available shall not be sufficient to pay in full all such Termination Payments then due and payable, then to the payment thereof ratably to each Qualified Counterparty, according to the amounts due thereon without any discrimination or preference;

Fifth, to the payment of any other amounts becoming due and payable with respect to Parity Obligations (including any letter of credit and remarketing fees);

Sixth, to the payment of the Subordinate Payments (except any Termination Payments with respect to a Subordinate Payment Agreement) then due and payable and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees) and , if the amount available shall not be sufficient to pay in full all such Subordinate Payments then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference;

Seventh, to the payment of any Termination Payments on all Subordinate Payment Agreements and, if the amount available shall not be sufficient to pay in full all such Termination Payments then due and payable, then to the payment thereof ratably to each Qualified Counterparty, according to the amounts due thereon without any discrimination or preference; and

Eighth, to the payment of all other amounts due and payable by the District.

Other Remedies. The Authority shall have the right –

(A) to declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, whereupon the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding;

(B) 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 herein;

(C) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(D) 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.

Non-Waiver. Nothing in this article or in any other provision of the Master Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay from Net Revenues, first, the Parity Payments, and second, the Subordinate Payments at the respective due dates or upon prepayment all as provided for herein, or shall affect or impair the right of the Authority and the Trustee, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or any other applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the District and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

DISCHARGE OF OBLIGATIONS

If the District shall pay or cause to be paid all the Payments at the times and in the manner provided herein, the right, title and interest of the Authority herein and the obligations of the District hereunder and under the Obligations to which such Payments relate shall cease, terminate, become void and be completely discharged and satisfied.

All or any portion of the Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in above if the District makes payment of such Payment and the prepayment premium, if applicable, in the manner provided in the applicable Issuing Document, or if not so provided therein, in the manner provided in the Master Agreement.

All or any portion of the Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in above if (i) notice is provided by the District to the Authority, (ii) there shall have been deposited with the Trustee either money in an amount which

shall be sufficient, or Government Obligations which are not subject to redemption except by the holder thereof prior to maturity, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant or other party satisfactory to the Trustee regarding such sufficiency) to pay when due the Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto and (iii) all fees and expenses with respect to the Obligations to which such Payments relate shall have been paid.

After the payment of all Payments and prepayment premiums, if any, as provided in this section, and the payment in full of all fees and expenses of the Authority, the Authority, upon receipt of a Request of the District, shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and the Authority and shall execute and deliver to the District and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Master Agreement, and the Authority shall pay over and deliver to the District, as an overpayment of Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the Payments, which money and investments shall continue to be held in trust for the payment of the Payments.

Notwithstanding anything in the Section 6.01 of the Master Agreement to the contrary, the obligations of the District hereunder and under the Obligations shall not be discharged unless all Payment Agreements have been terminated and all payments thereunder and in connection therewith, including without limitation, all Termination Payments, shall have been paid in full.

MISCELLANEOUS

Liability of District Limited to Net Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any money derived from any source of income other than the Net Revenues for the payment of first, the Parity Payments and second, the Subordinate Payments or for the performance of any agreements or covenants required to be performed by it contained herein; provided, that the District may advance money for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make first, the Parity Payments and second, the Subordinate Payments is a special obligation of the District payable solely from the Net Revenues as provided herein, and such obligations do not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of the Master Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the Authority, the Credit Facility Provider, Qualified Counterparties under Payment Agreements or the District any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the Authority or the District shall be for the sole and exclusive benefit of the other party, the Credit Facility Provider and Qualified Counterparties under Payment Agreements; provided, that with respect to enforcing the Authority's or the Trustee's rights hereunder, the Trustee, the Credit Facility Provider and Qualified Counterparties under Payment Agreements shall be third party beneficiaries of the Master Agreement and shall have the right to enforce the obligations of the District hereunder and pursue the remedies granted to the Authority hereunder.

Amendments to Master Agreement. The District and the Authority shall not supplement, amend, modify or terminate any of the terms of the Master Agreement, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee, which consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the holders of Obligations or result in any material impairment of the security given under the Master Agreement for the payment of the Obligations and the prior written consent of all Qualified Counterparties under any Payment Agreements shall have been obtained, or (b) the Trustee first obtains the written consent of the owners of a majority in aggregate principal amount of the Parity Obligations then Outstanding and the

written consent of all Qualified Counterparties under any Parity Payment Agreements, or (c) the Trustee first obtains the written consent of all Qualified Counterparties under any Parity Payment Agreement and the written consent of all credit enhancers for all Parity Obligations, but only if all Supplemental Contracts are credit-enhanced; provided however, if the supplement, amendment, modification or termination affects Sections 2.04, 3.01, 4.04 or 4.13 of the Master Agreement, the Trustee shall also first obtain the written consent of a majority in aggregate principal amount of Subordinate Obligations then Outstanding and the written consent of all Qualified Counterparties under any Subordinate Payment Agreements; provided that any supplement that complies with Sections 3.01, 3.02 and 3.03 of the Master Agreement shall not require the consent of the credit enhancers of any Obligations and shall not be deemed to materially adversely affect the interests of the holders of Obligations or result in any material impairment of the security under the Mater Agreement given for the payment of the Obligations provided that such supplement does not contain any other changes to the Master Agreement; and provided, further, that no such supplement, amendment, modification or termination shall reduce the amount of Payments to be with respect to an Obligation, or extend the time for making such Payments with respect to an Obligation, or permit the creation of any lien prior to or on a parity with the lien created by the Master Agreement on the Payments with respect to an Obligation without the written consent of the credit enhancer for such Obligation or, if there is no credit enhancer, the written consent of the all of the holders of the Obligation so affected and, in any case, the written consent of all Qualified Counterparties under any Payment Agreements.

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

"Event of Default" means an event described in the Series A Installment Purchase Agreement.

"Installment Payments" means the Installment Payments required to be made by the District pursuant to of the Installment Purchase Agreement.

"Installment Payment Date" means the date, without duplication, which is four Business Days prior to (i) each Interest Payment Date under the Indenture, (ii) each date set forth in an Exhibit to the Installment Purchase Agreement, (iii) each date Reimbursement Obligations become due, and (iv) each date obligations under the Initial Payment Agreement become due.

"Master Agreement" means the Master Installment Purchase Agreement, dated as of May 1, 2009, 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 with the terms thereof.

"Prior Obligations" means the Installment Purchase Agreement (Series 2009A) by and between the District and the Authority dated May 1, 2009.

"Projects" means the improvements to the System described in the Installment Purchase Agreement.

"Series of 2009A Bonds" means the Authority's Adjustable Rate Water Revenue Refunding Bonds, Series of 2009A issued pursuant to the terms of the Indenture.

"Series of 2012A Bonds" means the bonds sold under the terms of this Official Statement.

Purchase and Sale of Project; Application of Bond Proceeds.

Sale of the Projects to the Authority. The District sells the Projects to the Authority and the Authority agrees to purchase the Projects from the District for a purchase price as set forth in the respective Installment Purchase Agreement.

Sale of the Projects to the District. The District purchases from the Authority and the Authority sells to the District the Projects. All rights, title and interest in the Projects shall remain in the District on the Closing Date without further action on the part of the District or the Authority.

Installment Payments. In consideration of the Authority's agreement to refinance the Projects pursuant to the provisions of the Installment Purchase Agreement, the District shall, subject to any rights of prepayment provided in the Installment Purchase Agreement, pay to the Authority, solely from Net Revenues and from no other sources, the Installment Payments, as provided in the Installment Purchase Agreement. The Installment Payments shall be payable on the Installment Payment Dates and in the amounts set forth in the Installment Purchase Agreement. In addition to the amounts set forth in the Installment Purchase Agreement, Installment Payments shall include additional amounts due on Credit Facility Provider Bonds as provided in the Reimbursement Agreement (which such Reimbursement Agreement constitutes a Credit Facility Agreement pursuant to the Master Agreement) and amounts due to the Initial Payment Agreement Counterparty and for all purposes of the Installment Purchase Agreement and the Master Agreement the obligations of the District under the Reimbursement Agreement and the regularly scheduled payment obligations of the District under the Initial Payment Agreement shall be Parity Obligations. The obligation of the District to pay Termination Payments under the Initial Payment Agreement shall be Subordinate Obligations.

Each Installment Payment (other than portions of an Installment Payment representing payments on the Initial Payment Agreement) shall be deposited with the Trustee, as assignee of the Authority, and shall be paid in lawful money of the United States of America, in immediately available funds. If and to the extent that, on any such date, there are amounts on deposit in the Principal Subaccount or the Interest Subaccount of the Issuer Account established under the Indenture, or in any of the accounts therein, which amounts are not being held for the payment of specific Series of 2012A Bonds, said amounts shall be credited against the Installment Payment due on such date. Each portion of an Installment Payment representing amounts payable under the Initial Payment Agreement shall be paid directly to the Initial Payment Agreement Counterparty. Notwithstanding anything in the Installment Purchase Agreement to the contrary, all Installment Payments shall be made by the District in accordance with the procedures set forth in the Master Agreement including the priority of payments and pro rata payment provisions thereof.

In the event the District's obligations under the Initial Payment Agreement require the District to increase the amount of Installment Payments to be made under the 2012 Installment Purchase Agreement, the District shall make such Payments and inform the Trustee of such increase. Any amounts received by the District under the Initial Payment Agreement shall be deposited by the District to the Revenue Fund established under the Master Agreement.

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

Nature of Agreement. The Installment Purchase Agreement constitutes a Parity Obligation and a Supplemental Contract under the Master Agreement and, as such, shall be subject to the provisions of the Master Agreement and shall have all of the advantages, benefits, interests and security afforded Parity Obligations and Supplemental Contracts pursuant to the Master Agreement; provided that the obligation of the District to pay Termination Payments under the Initial Payment Agreement shall be subordinate to other Parity Obligations as more particularly set forth in the Master Agreement.

PREPAYMENT OF INSTALLMENT PAYMENTS; DISCHARGE

Prepayment of Installment Payments.

The District may optionally prepay Installment Payments as follows:

(1) The District may prepay all or a portion of the Installment Payments in accordance with the Master Agreement.

(2) The District may prepay all or a portion of the Installment Payments from any source of available funds by paying (A) all or a portion (in an amount equal to an Authorized Denomination under the Indenture), as elected by the District, of such Installment Payments, (B) an amount equal to the accrued but unpaid interest on the Bonds to be paid or redeemed from the proceeds of such prepaid Installment Payments to the date of such payment or redemption, as applicable, and (C) an amount equal to any premium to be paid upon the optional redemption of the Bonds to be redeemed from the proceeds of such prepaid Installment Payments.

(3) The District may prepay all or a portion of the Installment Payments from Net Proceeds of insurance or condemnation applied for such purpose as set forth in the Master Agreement.

The District shall prepay Installment Payments on any date that the Bonds are required to be redeemed pursuant to the Indenture.

The District may prepay, from any source of available funds, all or any portion of the Installment Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth in the Indenture, sufficient to pay the principal of, premium, if any, and interest on the Series of 2012A Bonds to be defeased with such Installment Payments.

If less than all of the Installment Payments are prepaid pursuant to this section then, as of the date of such prepayment pursuant to this section, the schedule of Installment Payments shall be recalculated by the District in order to take such prepayment into account. The District shall deliver a copy of such revised schedule to the Trustee and such revised schedule shall automatically supersede and replace the previous schedule.

Prepayments of Installment Payments made pursuant to this section shall be applied to the payment or redemption of Bonds as provided in the Indenture.

Notice. Before making any prepayment pursuant to this section, the District shall give written notice to the Trustee specifying the date on which the prepayment will be made, which date shall be not less than 45 (or such lesser number of days as is agreed to by the Trustee) nor more than 60 days from the date such notice is given to the Trustee.

Discharge of Obligations. If all Installment Payments shall be paid as and when due in accordance with the terms of the Installment Purchase Agreement, or prepaid in accordance with the Installment Purchase Agreement, and all other amounts due hereunder and under the Indenture and the Reimbursement Agreement shall be paid or provision shall have been made for the payment thereof and the Initial Payment Agreement shall have been terminated and all amounts payable thereunder (including, but not limited to, Termination Payments) shall have been paid in full, then all agreements, covenants and other obligations of the District hereunder shall thereupon cease, terminate and become void and be discharged and satisfied.

COVENANTS

Compliance with Master Agreement. The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Master Agreement required to be observed and performed by it and will not suffer or permit any default to occur thereunder.

Compliance with Installment Purchase Agreement and Credit Facility Agreement. The District will punctually pay the Installment Payments, and other payments required to be made by it hereunder, under the Initial Payment Agreement and under the Credit Facility Agreement in strict conformity with the terms of the Installment Purchase Agreement and thereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by it, will not suffer or permit any default to occur hereunder, under the Initial Payment Agreement and under the Credit Facility Agreement 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 in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Master Agreement 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.

Protection of Security and Rights. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Trustee, as assignee of the Authority, to the Installment Payments, and other payments required to be made by the District hereunder and will warrant and defend such rights against all claims and demands of all persons.

Amendment of Master Agreement. The Master Agreement shall not be amended except in accordance with its terms, and the consent of the Credit Facility Provider and the Initial Payment Agreement Counterparty shall be required for any amendment made pursuant to the Master Agreement.

Indemnification of Authority. To the extent permitted by law, the District agrees to indemnify and hold the Trustee, the Authority and each of their officers harmless against any and all liabilities which might arise out of or are related to the Project, the Installment Purchase Agreement, the Indenture, or the Bonds, and the District further agrees to defend the Trustee, the Authority and each of their officers in any action arising out of or related to the Project, the Installment Purchase Agreement or the Bonds.

Audits and Budgets. The District agrees to deliver to the Credit Facility Provider a copy of its annual audited financial statements within 210 days after the end of the District's fiscal year and a copy of its annual budget within 30 days after approval.

Payments to Trustee. The District agrees to pay all costs and expenses incurred by the Trustee in performing its duties under the Indenture and in enforcing its rights hereunder as assignee of the Authority.

Continuing Disclosure. The District covenants and agrees that it will enter into and comply with and carry out all of the provisions of a Continuing Disclosure Agreement that complies with the Securities and Exchange Commission Rule 15(c)(2)(12) (the "Rule"). Notwithstanding any other provision of the Installment Purchase Agreement, failure of the District to comply with any Continuing Disclosure Agreement shall not be considered an Event of Default hereunder; however, the Trustee may (and, at the request of any Participating Underwriter (as such term is defined in the Continuing Disclosure Agreement) or the Owners of at least 25% aggregate principal amount of Outstanding Series of 2009A Bonds upon satisfactory indemnity provided to the Trustee by such Owners, shall) or any Owner 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 Section. For purpose of the section, "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.

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, or unto the Trustee, as assignee of the Authority, the rights and benefits provided in the Installment Purchase Agreement to the Authority, or to the Trustee, as assignee of the Authority.

Credit Facility. The District agrees to provide the Credit Facility or an Alternate Credit Facility at all times required under the Indenture.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default. The following shall be Events of Default under the Installment Purchase Agreement, and Event of Default shall mean any one or more of the following events:

(A) if default shall be made by the District in the due and punctual payment of or on account of any Parity Obligation as the same shall become due and payable;

(B) if default shall be made by the District in the performance of any of the agreements or covenants required in the Installment Purchase Agreement, in the Indenture or in the Master Agreement to be performed by it (other than as specified in (a) above), and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Authority, or the Trustee provided, however, that the party or parties giving such notice, may agree, in writing, to a reasonable extension of such period prior to the expiration of such 30 day period and, provided, further, that if the District shall proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within such a period of 30 days, then, such period shall be increased without such written extension to such extent as shall be necessary to enable the District to diligently complete such curative action and such default shall not become an Event of Default for so long as shall be necessary to diligently complete such curative action; or

(C) if the District shall file 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 shall approve 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 shall assume custody or control of the District or of the whole or any substantial part of its property.

(D) An Event of Default under the Reimbursement Agreement.

Remedies on Default. Upon the occurrence of an Event of Default, the Trustee, as assignee of the Authority, may, take any or all of the following actions:

(A) declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, whereupon the same shall become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding;

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

(C) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee, as assignee of the Authority; and

(D) by suit in equity require the District and its board members, officers and employees to account as the trustee of an express trust.

Non-Waiver. Nothing in the provision of the Installment Purchase Agreement shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Trustee, as assignee of the Authority, at the respective due dates from the Net Revenues and the other funds in the Installment Purchase Agreement committed for such payment, or shall affect or impair the right of the Trustee, as assignee of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Trustee, as assignee of the Authority, shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee, as assignee of the Authority, to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee, as assignee of the Authority, by applicable law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee, as assignee of the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Trustee, as assignee of the Authority, the District and the Trustee, as assignee of the Authority, shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Installment Purchase Agreement conferred upon or reserved to the Trustee, as assignee of the Authority, is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

AMENDMENTS

The Installment Purchase Agreement and the rights and obligations of the District, the Authority and the Trustee, as assignee of the Authority, may be amended or modified from time to time and at any time in any manner that is not inconsistent with the provisions of the Master Agreement by a written amendment hereto executed by the District, the Authority and the Trustee, as assignee of the Authority, with the written consent of the Initial Payment Agreement Counterparty and the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding; provided that if any such amendment will affect the rights, obligations or duties of the Credit Facility Provider hereunder, the written consent of the Credit Facility Provider shall also be required. No such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each affected Bond, or (ii) reduce the percentage of Owners of the Bonds whose consent is required to effect any such amendment or modification, without the prior written consent of the Owners of all Bonds then Outstanding.

The Installment Purchase Agreement and the rights and obligations of the District, the Authority and the Trustee, as assignee of the Authority, may be amended or modified from time to time and at any time in a manner that is not inconsistent with the provisions of the Master Agreement by a written amendment hereto executed by the District, the Authority and the Trustee, as assignee of the Authority, without the written consents of any Owners of the Bonds, but only to the extent permitted by law and only for any one or more of the following purposes -

(1) to add to the agreements, conditions, covenants and terms required by the District, the Authority or the Trustee, as assignee of the Authority, to be observed or performed in the Installment Purchase Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the

District, the Authority or the Trustee, as assignee of the Authority, or to surrender any right or power reserved in the Installment Purchase Agreement to or conferred in the Installment Purchase Agreement on the District, the Authority or the Trustee, as assignee of the Authority, and which in either case shall not materially adversely affect the interests of the Owners of the Series of 2012A Bonds;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Installment Purchase Agreement or in regard to questions arising hereunder which the District, the Authority or the Trustee, as assignee of the Authority, may deem desirable or necessary and not inconsistent with the Master Agreement, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(3) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest on the Bonds; and

(4) to make such other changes in the Installment Purchase Agreement or modifications hereto as the District, the Authority or the Trustee, as assignee of the Authority, may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners of the Bonds; provided however, that if any such amendment will affect the rights, obligations or duties of the Credit Facility Provider hereunder and/or the Initial Payment Agreement Counterparty, the written consent of the Credit Facility Provider and/or the Initial Payment Agreement Counterparty shall also be required.

MISCELLANEOUS

Liability of District Limited. Notwithstanding anything contained in the Installment Purchase Agreement, the District shall not be required to advance any moneys derived from any source of income other than Net Revenues and the other funds provided in the Installment Purchase Agreement for the payment of the Installment Payments, and other payments required to be made by it hereunder, or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The District may, however, but in no event shall be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to pay the Installment Payments and other payments required to be made by it hereunder is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, 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. Neither the faith and credit nor the taxing power of the District or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments, or other payments required to be made hereunder.

Limitation of Rights. Nothing in the Installment Purchase Agreement expressed or implied is intended or shall be construed to give to any person other than the District, the Authority, the Credit Facility Provider, the Initial Payment Agreement Counterparty and the Trustee, as assignee of the Authority, any legal or equitable right, remedy or claim under or in respect of the Installment Purchase Agreement or any covenant, condition or provision therein or in the Installment Purchase Agreement contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Authority, the Credit Facility Provider, the Initial Payment Agreement Counterparty and the Trustee, as assignee of the Authority.

Assignment. The District and the Authority acknowledge the transfer, conveyance and assignment by the Authority to the Trustee of all of the Authority's rights, title and interest under the Installment Purchase Agreement (excepting its rights to indemnification hereunder), including the right to receive Installment Payments hereunder.

INDENTURE OF TRUST

DEFINITIONS

"Act" shall mean the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Governmental Code of California, as amended and supplemented.

"Alternate Rate" means, unless otherwise set forth in a Supplement to the Indenture, with respect to Bonds subject to a Daily Rate or a Weekly Rate, an annual rate equal to at least the rates shown in the following table:

Short-Term Rating		Long-Term Rating	% of SIFMA Municipal Swap Index
A1 or P-1 or F1	and	AAA or Aaa or AAA	150%
A1 or P-1 or F1	and	AA or Aa or AA	250%
A1 or P-1 or F1	and	A or A or A	350%
A2 or P-2 or F2	and	BBB or Baa or BBB	450%
A3 or P-3 or F3 or below	and	BBB- or Baa3 or BBB- or below	Maximum Rate

In the foregoing tables, the reference to "Short-Term Rating" is the rating then in effect with respect to the Bonds and if there is a split rating, then the lower rating applies. The reference to the "Long-Term Rating" is the long term rating of the Credit Facility Provider, and if there is a split rating, then the lower rating applies. If a Credit Facility is not in place or is not performing, the Alternate Rate shall be the Maximum Rate.

"Authority" or "Issuer" shall mean the Western Municipal Water District Facilities Authority, a joint exercise of powers agency established pursuant to the laws of the State, whose members as of the date hereof are the District and Jurupa Community Services District, until a successor organization shall have become such, and thereafter "Authority" shall mean such successor organization.

"Authorized Denominations" means (i) with respect to Fixed Rate Bonds, $5,000 and integral multiples thereof, and (ii) with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds, $100,000 and integral multiples of $5,000 in excess thereof.

"Authorized Newspaper" shall mean the Bond Buyer or any other financial newspaper customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation in the Borough of Manhattan and City and State of New York.

"Bond" or "Bonds" shall mean any Bond or all of the Bonds, as the case may be, authorized and issued by the Issuer, authenticated by the Trustee and delivered under the Indenture.

"Bond Documents" means the Indenture, the Master Installment Purchase Agreement, the Purchase Installment Agreement the Bonds, the Remarketing Agreement, and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

"Bond Register" means the registration books of the Issuer kept by the Trustee to evidence the registration and transfer of Bonds.

"Bond Registrar" means the Trustee when acting as such, and any other bank or trust company designated and at the time serving as bond registrar under the Indenture.

"Bond Service Fund" means the Bond Service Fund established pursuant to the Indenture.

"Bondowner," "Bondholder," "Holder," "holder of bonds," "Owner" or "Registered Owner" means the Person in whose name a Bond is registered on the Bond Register.

"Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the cities in which the Designated Office of the Trustee, the Paying Agent, the Remarketing Agent or the Credit Facility Provider are located or the office of the Credit Provider at which drawings under the Credit Facility are to be presented are required or authorized by law or executive order to close, and (iii) a day on which the New York Stock Exchange is closed.

"Cede & Co." means Cede & Co., as nominee name of The Depository Trust Company, New York, New York.

"Certificate of Issuer Representative" means a written certificate signed by an Issuer Representative, which certificate shall be deemed to constitute a representation of, and shall be binding upon, the Issuer with respect to matters set forth therein.

"Closing Date" means May 14, 2009, being the date of initial delivery of and payment for all of the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, including, when appropriate, the statutory predecessor of the Code and all applicable Treasury regulations.

"Conversion Date" means a day on which any of the Bonds are converted from one Interest Rate Period to a different Interest Rate Period, in accordance with the Indenture.

"Cost of Issuance" shall mean items of expense payable or reimbursable directly or indirectly by the Issuer and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Trustee, including the fees and expenses of its counsel, fees and charges of the Escrow Agent, including the fees and expenses of its counsel, expenses incurred by the Issuer in connection with the issuance of the Bonds, legal fees and charges, including bond counsel, counsel to the Credit Facility Provider and financial consultants' fees, costs of credit ratings, fees and expenses in connection with securing the Credit Facility, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

"Counsel" shall mean, with respect to the Issuer, counsel, duly authorized to engage in the practice of law, who may be, but need not be, retained regularly by the Issuer, and duly appointed by the Issuer.

"Credit Facility" means the Initial Credit Facility and any Substitute Credit Facility.

"Credit Facility Account" means the account by that name in the Bond Service Fund established pursuant to the Indenture.

"Credit Facility Proceeds Account" means the account by that name in the Purchase Fund established pursuant to the Indenture.

"Credit Facility Provider" means a bank, trust company, national banking association, insurance company or other financial services company or entity, issuing a Credit Facility then in effect in its capacity as issuer of that Credit Facility.

"Credit Facility Provider Bonds" means Bonds purchased by or on behalf of, or pledged to, the Credit Facility Provider pursuant to a Credit Facility and/or Reimbursement Agreement and the terms hereof but excluding Bonds no longer considered Credit Facility Provider Bonds pursuant to the terms of the Credit Facility.

"Credit Facility Provider Bonds Purchase Price" means, with respect to Credit Facility Provider Bonds subject to purchase on a Purchase Date, an amount equal to the principal amount thereof plus interest accrued and unpaid at the Credit Facility Provider Rate.

"Credit Facility Provider Rate" means the interest rate(s) applicable from time to time to Credit Facility Provider Bonds as determined in accordance with the Credit Facility; provided that no Credit Facility Provider Rate shall exceed the Maximum Rate.

"Credit Facility Request" means the submission by the Trustee to the Credit Facility Provider of a request or draw in accordance with the terms of the Credit Facility to provide funds to pay the Purchase Price of or principal and interest on the Bonds.

"Daily Interest Period" means each period described in the Indenture during which the Bonds bear interest at a particular Daily Rate.

"Daily Rate" means the applicable per annum interest rate for the Bonds during a Daily Rate Period determined on a daily basis as provided in the Indenture.

"Daily Rate Bonds" means the Bonds bearing interest at a Daily Rate.

"Daily Rate Period" means the applicable period during which the Daily Rates are in effect for the Bonds.

"Defaulted Interest" means interest on any Bond which is payable but not paid on the date due.

"Default Rate" means the Maximum Rate.

"Designated Office" means with respect to any entity performing functions under any Bond Document, the designated office of that entity or its affiliate at which those functions are performed.:

"Electronic Means" means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"Eligible Account" means an account that is maintained with (i) a federal or state-chartered depository institution or trust company that has a short-term debt rating assigned by each Rating Agency of at least A-2 or, if it does not have a short-term debt rating, has a long-term debt rating assigned by each Rating Agency of at least BBB+, or (ii) the corporate trust department of a federal depository institution or state-chartered depository institution which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

"Event of Default" means with respect to the Indenture, any "Event of Default" as defined in the Indenture.

"Expiration Date" means the date upon which the Credit Facility Provider's obligation to pay principal and interest on the Bonds or the Purchase Price of the Bonds under a Credit Facility is scheduled to expire (taking into account any extensions of the Expiration Date) in accordance with its terms, other than by reason of conversion to a different rate period, a substitution of a Substitute Credit Facility or an "event of default" specified in the Credit Facility.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all reasonable out-of-pocket expenses (including but not limited to attorneys' fees and expenses) properly incurred by the Trustee or any of its agents under the Indenture, other than Ordinary Services and Ordinary Expenses.

"Favorable Opinion of Bond Counsel" means an opinion of nationally recognized bond counsel acceptable to the Issuer, addressed to the Issuer, the Remarketing Agent, the Credit Facility Provider and the Trustee, to the effect that the proposed action to be taken regarding the Bonds is authorized or permitted by the Indenture and, as of the date of such action, will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation under Section 103 of the Code. If a Favorable Opinion of Bond Counsel is delivered in connection with the conversion from one Interest Rate Period to another Interest

Rate Period, the opinion with respect to the exclusion of interest from gross income for federal income tax purposes may, at the option of the District, be limited to interest payable on or prior to the Conversion Date.

"Fiscal Year" means the fiscal year of the Issuer, currently the 12-month period beginning on the first day of July of each calendar year and ending on the last day of June.

"Fitch" means Fitch Ratings, and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, Fitch means any other nationally recognized securities rating service designated by the Issuer, with notice to the Trustee.

"Fixed Rate" means the interest rate or rates to maturity established in accordance with the Indenture.

"Fixed Rate Bonds" means the Bonds bearing interest at a Fixed Rate.

"Fixed Rate Period" means the applicable period of time, during which the Bonds bear interest at a Fixed Rate.

"Government Obligations" means any of the following which are noncallable by the issuer thereof except to the extent not permitted by the laws of the State as an investment for the moneys to be invested therein at the time of investment:

(i) (a) direct general obligations of the United States of America, (b) obligations the payment of the principal of and interest on which are unconditionally guaranteed as to the full and timely payment by the United States of America, or (c) any fund or other pooling arrangement whose assets consist exclusively of the obligations listed in clause (a) or (b) of this clause (i) and which is rated at least "P-1" by Moody's; provided that, such obligations shall not include unit investment trusts or mutual fund obligations;

(ii) advance refunded tax-exempt obligations secured by the obligations specified in clause (i) which tax-exempt obligations are rated "Aaa" by Moody's and "AAA" by S&P as a result of such obligations being secured by said obligations;

(iii) bonds, debentures, notes or other evidence of indebtedness issued by the Federal Farm Credit Bank or the Federal National Mortgage Association; provided that such bonds, debentures or notes shall be the senior obligations of such agencies (including participation certificates); and

(iv) bonds, debentures, notes or other evidence of indebtedness issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America as to the full and timely payment; provided, that, such obligations shall not include unit investment trusts or mutual fund obligations secured by such bonds, debentures or notes.

For the purposes of the Indenture, Government Obligations shall mean and include only such securities as are described in the preceding sentence which: (x) shall not be subject to redemption prior to their maturity other than at the option of the owner thereof unless the moneys to be available from the redemption of such securities on the earliest date on which such securities are subject to redemption, other than at the option of the owner thereof, shall be at least equal to the amount of money expected to be derived in connection with such securities in determining that the provisions of the Indenture have been satisfied, and (y) which are then permitted to be applied as provided in the Indenture under applicable law.

"Initial Credit Facility" means the applicable irrevocable letter of credit issued by the Initial Credit Facility Provider to the Trustee to secure the payment of the principal of and interest on, and any Purchase Price of, the Bonds and which shall be a "Credit Facility" hereunder.

"Initial Credit Facility Provider" means Union Bank, N.A. as issuer of the Initial Credit Facility for the Bonds. The Initial Credit Facility Provider shall be a "Credit Facility Provider" hereunder.

"Interest Payment Date" means, except as otherwise provided in the Indenture, (i) when the Bonds bear interest at a Daily or Weekly Rate, the first Business Day of each calendar month; (ii) when the Bonds bear interest at a Fixed Rate or Long-Term Rate, each April 1 and October 1; (iii) when the Bonds bear interest at a Short-Term Rate, the last day of the Short-Term Rate Period; (iv) with respect to Credit Facility Provider Bonds, the applicable dates set forth in the Reimbursement Agreement, and (v) each other day on which principal is payable, including each maturity and redemption date and any defeasance or acceleration date; provided that, if any such day is not a Business Day, any payment due on such date may be made on the next Business Day, without additional interest and with the same force and effect as if made on the specified date for such payment.

"Interest Rate Period" means (i) a Daily Rate Period (comprised of separate Daily Interest Periods), (ii) a Weekly Rate Period (comprised of separate Weekly Interest Periods), (iii) a Short-Term Rate Period (comprised of separate Short-Term Interest Periods), (iv) a Long-Term Rate Period (comprised of separate Long-Term Interest Periods), or (v) a Fixed Rate Period.

"Interest Receipts" shall mean all amounts received by the Trustee as the payment of interest, or the equivalent thereof, with respect to the Installment Purchase Agreement.

"Interest Subaccount" means the subaccount of that name established with the Issuer Account pursuant to the Indenture.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Issuer's funds:

(i) Government Obligations;

(ii) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Government National Mortgage Association, the Federal National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States;

(iii) fixed rate obligations of any state or territory of the United States of America or any political subdivision thereof; *provided,* that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise); or variable rate demand obligations or so-called auction rate obligations of any state or territory of the United States of America or any political subdivision thereof; *provided* that at the time of purchase such obligations are rated in the highest rating category by at least two nationally recognized bond rating agencies (whether by reason of credit enhancement or otherwise);

(iv) Unsecured certificates of deposit, time deposits and bankers' acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated at least "A-1+" or by S&P and "Prime-1" by Moody's and or certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated A-1, P1 or F1 or better by S&P, Moody's and Fitch, respectively;

(v) Money market funds rated "AAm" or "AAm-G" by S&P, or better and if rated by Moody's rated Aa2 or better, including such funds for which the Trustee or an affiliate provides investment advice or other services;

(vi) Taxable government money market portfolios restricted to obligations issued by, or the payment of principal and interest with respect to which is guaranteed by, the United States of America, and which are rated in the highest rating category by at least one of the Rating Agencies, including money market

funds for which the Trustee, any affiliate or subsidiary provides investment advisory or other management services;

(vii) The State of California's Local Agency Investment Fund ("LAIF") established by Government Code Section 16429.1. The Trustee may restrict investments in LAIF if required to keep moneys available for the purposes of this Indenture; and

(viii) Direct obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) or Federal Home Bank System or Farm Credit System which obligations that are not guaranteed by the full faith and credit of the United States of America.

"Issuer Account" means the account of that name established in the Bond Service Fund pursuant to the Indenture.

"Issuer Purchase Account" means the account of that name established in the Purchase Fund pursuant to the Indenture.

"Issuer Representative" means the Chairperson, Executive Director or Treasurer of the Issuer or that officer's designee.

"Law" shall mean the Municipal Water District Law of 1911, being Division 20 of the California Water Code.

"LIBOR" means, the interest rate per annum equal to the consensus rate then being offered by major international banks on Eurodollar deposits with an original maturity of thirty (30) days as quoted on the Reuter's LIBOR 01 Page on Telerate or, if no longer quoted thereon, determined by reference to such other comparable source determined by the Credit Facility Provider, by notice given to the Trustee and the Issuer.

"Long-Term Interest Period" means each period described in the Indenture during which the Bonds accrue interest at a particular Long-Term Rate.

"Long-Term Rate" means the applicable per annum interest rate to be determined on the Bonds for a term of at least 12 months pursuant to the Indenture.

"Long-Term Rate Bonds" means any the Bonds bearing interest at a Long-Term Rate.

"Long-Term Rate Period" means the applicable period during which Long-Term Rates are in effect for the Bonds.

"Maturity Date" means October 1, 2042, subject to prior redemption as provided in the Indenture.

"Maximum Rate" means with respect to (a) Bonds that are not Credit Facility Provider Bonds, the least of (i) the maximum rate permitted by law, (ii) 12% per annum and (iii) the maximum rate utilized to determine the amount available under any Credit Facility then in effect for the Bonds, and (b) Credit Facility Provider Bonds, the maximum rate permitted by law.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer Representative, by written notice to the Trustee.

"Net Proceeds" shall mean the proceeds of insurance or condemnation applied to prepay Installment Payments under the Installment Purchase Agreement.

"Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

"Opinion of Counsel" means an opinion in writing signed by legal counsel acceptable to the Issuer and the Trustee who may be an employee of or counsel to the Issuer.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those expenses normally incurred, by a trustee under instruments similar to the Indenture, but not those services (other than a drawing on a Credit Facility) rendered and those expenses incurred following the occurrence and during the continuation of an Event of Default under the Indenture.

"Original Purchaser" means Merrill Lynch, Pierce, Fenner & Smith, Incorporated.

"Outstanding" means, when used with reference to the Bonds, as of a particular date, all Bonds theretofore authenticated and delivered, except:

(1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation pursuant to the Indenture;

(2) Bonds which are deemed to have been paid in accordance with the Indenture; and

(3) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture.

"Participants" means those financial institutions for whom the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

"Paying Agent" means the Trustee and any other commercial bank or trust institution organized under the laws of any state of the United States of America or any national banking association designated by the Indenture or any Supplemental Indenture as paying agent for the Bonds at which the Purchase Price or principal of and redemption premium, if any, and interest on such Bonds shall be payable.

"Payment Default" means a failure by the Issuer to pay principal and interest on the Bonds when due.

"Person" means any natural person, firm, joint venture, association, partnership, limited liability company, business, trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Prevailing Market Conditions" means, to the extent relevant (in the professional judgment of the Remarketing Agent) at the time of establishment of a rate or rates for the Bonds as provided in the Indenture, (i) interest rates on comparable securities then being issued and traded, (ii) other financial market rates and indices that may have a bearing on rates of interest; (iii) general financial market conditions (including then current forward supply figures) that may have a bearing on rates of interest, and (iv) the financial condition, results of operation and credit standing of the Issuer and the Credit Facility Provider to the extent such standing has a bearing on rates of interest.

"Principal Payment Date" means October 1 of the year in which principal of the Bonds is due whether by stated maturity or by mandatory sinking fund redemption.

"Principal Subaccount" means the subaccount of that name established in the Issuer Account pursuant to the Indenture.

"Principal Receipts" shall mean all amounts received by the Trustee as the payment or return of principal, or the equivalent thereof, with respect to the Installment Purchase Agreement, whether as a result of

scheduled payments, advance payments, payments made upon the exercise by the owner thereof of an option to have such payments made or the acceleration of payments due thereunder or other remedial proceedings taken in the event of a default thereon.

"Projects" shall mean the improvements to the District's system described in the Installment Purchase Agreement.

"Purchase Contract" means the Bond Purchase Agreement among the Issuer, the District and the Original Purchaser.

"Purchase Date" means each date on which Bonds are subject to optional or mandatory tender for purchase pursuant to the Indenture.

"Purchase Fund" means the fund by that name established pursuant to the Indenture and held by the Paying Agent.

"Purchase Price" means, with respect to a Bond subject to purchase on a Purchase Date, an amount equal to the principal amount thereof plus (if such Purchase Date is not an Interest Payment Date therefor) accrued and unpaid interest thereon to such Purchase Date.

"Rating Agency" means each nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of the Issuer, and initially means Fitch and S&P.

"Rebate Fund" means the fund by that name created by the Indenture.

"Receipts " shall mean, collectively, Principal Receipts and Interest Receipts.

"Record Date" means (i) with respect to each Interest Payment Date for Daily Rate Bonds, Weekly Rate Bonds or Short-Term Rate Bonds, the Business Day immediately preceding that Interest Payment Date, and (ii) with respect to each Interest Payment Date for Fixed Rate Bonds or Long-Term Rate Bonds, the 15th day of the month immediately preceding such Interest Payment Date.

"Redemption Price" shall mean the principal amount, plus the applicable premium, if any, payable upon redemption of any Bond pursuant to the Indenture.

"Redemption Subaccount" means the subaccount of that name established pursuant to the Indenture.

"Reimbursement Agreement" means initially (i) the Reimbursement Agreement dated as of June 1, 2012 between the Issuer, the District and the Initial Credit Facility Provider, and any extension thereof, and includes, without limitation, any fee agreement, fee letter or like agreement entered into in connection therewith, and (ii) any other reimbursement agreement between the District and a Credit Facility Provider setting forth the obligations of the District to such Credit Facility Provider arising out of any payments under a Credit Facility and which provides that it shall be deemed to be a Reimbursement Agreement for the purpose of the Indenture and includes, without limitation, any fee agreement, fee letter or like agreement entered into in connection therewith.

"Remarketing Agent" means any firm at the time serving as a Remarketing Agent pursuant to the Indenture. The initial Remarketing Agent for the Bonds is Merrill Lynch, Pierce, Fenner & Smith, Incorporated.

"Remarketing Agreement" means, with respect to Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds or Long-Term Rate Bonds, any agreement between the Issuer and a Remarketing Agent whereby the Remarketing Agent agrees to perform the duties of the Remarketing Agent under the Indenture with respect to the Bonds.

"Remarketing Proceeds Account" means the account of that name established in the Purchase Fund pursuant to the Indenture.

"Replacement Bonds" means Bonds issued to the beneficial owners of the Bonds in accordance with the Indenture.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC Business, Inc., and its successors and assigns, or, if such Division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer Representative, by written notice to the Trustee.

"Scheduled Interest Receipts" shall mean, as of any date, Interest Receipts scheduled, as of such date, to be received pursuant to the terms of the Installment Purchase Agreement.

"Scheduled Principal Receipts" shall mean, as of any date, (i) Principal Receipts scheduled, as of such date, to be received pursuant to the terms of the Installment Purchase Agreement, and (ii) Principal Receipts contemplated to be received as the result of the exercise of an option to have such Principal Receipts paid.

"Securities Depository" means, initially, The Depository Trust Company, New York, New York, and its successors and assigns and any successor Securities Depository appointed pursuant to the Indenture.

"Short-Term Interest Period" means each period determined as provided in the Indenture during which Bonds bear interest at a particular Short-Term Rate.

"Short-Term Rate" means the applicable per annum interest rate for the Bonds during a Short-Term Rate Period determined on a periodic basis as provided in the Indenture.

"Short-Term Rate Bonds" means any bearing interest at a Short-Term Rate.

"Short-Term Rate Period" means the applicable period during which Short-Term Rates are in effect for the Bonds.

"SIFMA" means the Securities Industry and Financial Markets Association Municipal Swap Index as disseminated by Municipal Market Data, a Thomson Financial Services Company, or its successor, for the most recently preceding Business Day or any other such index as may be determined by the Authority should SIFMA no longer publish rates.

"Special Record Date" means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

"State" shall mean the State of California.

"Substitute Credit Facility" means (i) a letter of credit, standby securities purchase agreement or other similar agreement replacing a Credit Facility in accordance with the Indenture, or (ii) any modification of an existing Credit Facility that reduces the amount available to be drawn under that existing Credit Facility to pay principal and interest.

"Substitution Date" means a date on which a Substitute Credit Facility is accepted by the Trustee and becomes effective with respect to the Bonds, or a date on which an existing Credit Facility Provider assigns all or a portion of its rights and/or obligations to an assignee Credit Facility Provider (other than a participant), in each case, in accordance with the Indenture.

"Supplemental Indenture" means any indenture supplemental or amendatory to the Indenture entered into by the Issuer and the Trustee pursuant to the Indenture.

"Trustee" means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America and duly authorized to exercise corporate trust powers under the laws of the State of Ohio, its successor and any entity resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee under the Indenture.

"Undelivered Bond" means any Bond that is subject to purchase pursuant to the Indenture on a Purchase Date and that is not tendered and delivered for purchase on that Purchase Date but as to which the Paying Agent holds in the Purchase Fund sufficient funds to pay the Purchase Price of that Bond.

"Undelivered Bond Payment Account" means the account by that name in the Purchase Fund established pursuant to the Indenture.

"Value," as of any particular time of determination, means,

(a) for securities:

(1) the closing bid price quoted by Interactive Data Systems, Inc.; or

(2) a valuation performed by a nationally recognized and accepted pricing service acceptable to the Trustee whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date; the dealers or their parent holding companies must be rated at least investment grade by Moody's and S&P and must be market makers in the securities being valued; or

(4) for any security maturing within 30 days of the valuation date, the maturity value of the security including interest to be paid on the maturity date.

(b) as to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest;

(c) with respect to any investment agreement, the total amount that may be withdrawn therefrom for the purposes of the fund in which it is held; and

(d) as to any investment not specified above, the value thereof established by prior agreement between the Issuer and the Trustee.

"Weekly Interest Period" means each applicable period described in the Indenture during which Bonds bear interest at a particular Weekly Rate.

"Weekly Rate" means the applicable per annum interest rate for Bonds during a Weekly Interest Period determined on a weekly basis as provided in the Indenture.

"Weekly Rate Bonds" means Bonds bearing interest at a Weekly Rate.

"Weekly Rate Period" means the applicable period during which Weekly Rates are in effect for the Bonds.

"Written Request" or "Written Order" means a request in writing signed by the Issuer Representative or any other officers designated by the Director of Finance to sign such Written Request.

Determination of Interest Rates

(a) General.

(i) The Bonds may bear interest at any time in any Interest Rate Period, provided that all Bonds must bear interest in the same Interest Rate Period at any given time.

(ii) The amount of interest payable on any payment date shall be computed (A) during a Daily Interest Period, Weekly Interest Period or Short-Term Interest Period, on the basis of a 365- or 366-day year for the number of days actually elapsed, based on the calendar year in which the Daily Interest Period, the Weekly Interest Period or the Short-Term Interest Period ends, and (B) during a Long-Term Rate Period or Fixed Rate Period, on the basis of a 360-day year of twelve 30-day months.

(iii) Interest payable on each Interest Payment Date shall be the interest accrued and unpaid to and including the day preceding such Interest Payment Date. Notwithstanding the foregoing, the amount of interest payable with respect to Credit Facility Provider Bonds shall be calculated as provided in the Reimbursement Agreement.

(iv) All determinations of interest rates, amounts of interest payable on Bonds and Interest Rate Periods pursuant to the Indenture shall be conclusive and binding upon the Issuer, the Trustee, the Paying Agent, the Credit Facility Provider and the Owners of the Bonds to which such rates are applicable. The Issuer, the Trustee, the Paying Agent, the Remarketing Agent and the Credit Facility Provider shall not be liable to any Bondowner for failure to give any notice specified in this section or for the failure of any Bondowner to receive any such notice.

(b) Determination by Remarketing Agent:

(i) The interest rate for Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds for each Interest Rate Period shall be determined by the Remarketing Agent as the lowest rate of interest that, in the judgment of the Remarketing Agent, will produce as nearly as practical a par bid for the Bonds as of the date of determination, taking into account Prevailing Market Conditions, provided that in no event will the interest rate on the Bonds exceed the Maximum Rate.

(ii) In the event the Remarketing Agent fails for any reason to determine the interest rate for any Interest Rate Period shall be the Alternate Rate.

(iii) Notice of the interest rate for each Daily Rate Bond and Weekly Rate Bond shall be available to Bondowners from the Remarketing Agent at its Designated Office (a) in the case of Daily Rate Bonds on the date such interest rate is determined by 10:00 a.m., New York City time, (b) in the case of Weekly Rate Bonds on the date such interest rate is determined by 4:00 p.m., New York City time and (c) after such times, upon request. Notice of the interest rate for each Daily Rate Bond, Weekly Rate Bonds, Short-Term Rate Bond, Long-Term Rate Bond and, if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), shall be communicated by the Remarketing Agent to the Issuer, the Trustee and the Credit Facility Provider by Electronic Means, (a) in the case of Daily Rate Bonds by 10:00 a.m., New York City time, on the last Business Day of the week in which the interest rate for such Daily Rate Bond is determined, by 10:00 a.m., New York City time, on the last Business Day of the month in which the interest rate for such Daily Rate Bond is determined and upon request by the Issuer, the Trustee or the Credit Facility Provider, and (b) in the case of Weekly Rate Bonds, Short-Term Rate Bonds, Long-Term Rate Bonds or Fixed Rate Bonds, not later than 4:00 p.m., New York City time, on the date such interest rate is determined, and shall be available to Bondowners after such time, from the Remarketing Agent at its Designated Offices and shall also be communicated by the Remarketing Agent to any Bondowner upon request.

(c) Daily Rates.

(i) Whenever Bonds are to bear interest accruing at a Daily Rate, Daily Interest Periods shall commence on each Business Day and shall extend to, but not include, the next succeeding Business Day.

(ii) The interest rate for each Daily Interest Period shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next succeeding Business Day.

(iii) Each such interest rate shall be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Daily Interest Period to which it relates.

(d) Weekly Rates.

(i) Whenever Bonds are to bear interest accruing at a Weekly Rate, Weekly Interest Periods shall commence on Thursday of each week and end on Wednesday of the following week; provided, however, that (A) in the case of a conversion to a Weekly Rate Period, the initial Weekly Interest Period for the Bonds shall commence on the Conversion Date and end on the next succeeding Wednesday and (B) in the case of a conversion from a Weekly Rate to a Daily Rate, the last Weekly Interest Period prior to conversion shall end on the last day immediately preceding the Conversion Date.

(ii) The interest rate for each Weekly Interest Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof.

(iii) Each such interest rate shall be determined by the Remarketing Agent by 4:00 p.m., New York City time, on the Business Day immediately preceding the commencement date of the Weekly Interest Period to which it relates.

(e) Short-Term Rates. Short-Term Rates on, and Short-Term Interest Periods for, Short-Term Rate Bonds shall be determined as follows:

(i) Each Short-Term Interest Period shall be determined by the Remarketing Agent on the first Business Day of that Short-Term Interest Period as that Short-Term Interest Period which will, in the judgment of the Remarketing Agent, produce the greatest likelihood of the lowest net interest cost; provided that each Short-Term Interest Period (A) shall be from 1 to 270 days in length but shall not exceed the number of days of interest coverage provided by the Credit Facility minus five days, shall not extend beyond the date that is five days before the Expiration Date of the Credit Facility and shall not exceed the remaining number of days prior to the Conversion Date if the Remarketing Agent has given or received notice of any conversion to a different Interest Rate Period, (B) shall commence on a Business Day (except in the case of a conversion to a Short-Term Rate Period, the initial Short-Term Interest Period shall commence on the Conversion Date), shall end on a day preceding a Business Day, and (C) in any event shall end no later than the day preceding the Maturity Date. The Remarketing Agent may, in the reasonable exercise of its judgment, determine a Short-Term Interest Period that results in a Short-Term Rate on the Bonds that is higher than would be borne by the Bonds with a shorter Short-Term Interest Period in order to increase the likelihood of achieving the lowest net interest cost during the term of the Bonds by assuring the effectiveness of such Short-Term Rate for a longer Short-Term Interest Period. The determination of a Short-Term Interest Period by the Remarketing Agent shall be based upon the relative market yields of the Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the reasonable exercise of the judgment of the Remarketing Agent are otherwise comparable to the Bonds, or any fact or circumstance relating to the Bonds or affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the reasonable exercise of the judgment of the Remarketing Agent, will affect the market for the Bonds.

The Remarketing Agent in its discretion, may consider such information and resources as it deems appropriate in making the determinations described in this paragraph, including consultations with the Issuer, but the Remarketing Agent's determination of the Short-Term Interest Period will be based solely upon the reasonable exercise of the Remarketing Agent's judgment.

(ii) The interest rate for each Short-Term Interest Period shall be effective from and including the commencement date of that Short-Term Interest Period and shall remain in effect through and including the last day thereof.

(iii) All Short-Term Rate Bonds shall bear interest accruing at the same Short-Term Rate, and for the same Short-Term Interest Period.

(iv) Each such interest rate shall be determined by the Remarketing Agent by 12:00 p.m., New York City time, on the commencement date of the Short-Term Interest Period to which it relates.

(f) Long-Term Rates. A Long-Term Rate for Long-Term Rate Bonds shall be determined for each Long-Term Interest Period as follows:

(i) Long-Term Interest Periods shall commence on a Conversion Date and subsequently on a January 1 which is at least 12 calendar months after the Conversion Date to a Long-Term Rate Period, and end on the day preceding (x) the commencement date of the following Long-Term Interest Period (y) the Conversion Date on which a different Interest Rate Period shall become effective or (z) the Maturity Date.

(ii) The Long-Term Rate for each Long-Term Interest Period shall be effective from and including the commencement date thereof and remain in effect to and including the last day thereof. Each such Long-Term Rate shall be determined on the Business Day immediately preceding the commencement date of such period.

(iii) Long-Term Interest Periods shall not extend to a date beyond the fifth day next preceding the Expiration Date of the Credit Facility.

(iv) The term of each Long-Term Interest Period shall be specified in writing by the Issuer to the Remarketing Agent, the Trustee, the Paying Agent and the Credit Facility Provider at least 20 days before its commencement.

(v) Prior to the commencement of any Long-Term Interest Period the Trustee shall receive a Favorable Opinion of Bond Counsel.

(g) Fixed Rate. The Fixed Rate shall be determined as set forth in this subsection (g). Bonds bearing interest at a Fixed Rate may not be converted to any other type of Interest Rate Period pursuant to the Indenture.

The Fixed Rate Period shall commence on a Conversion Date and shall extend to the earlier of the date of redemption or the Maturity Date. The Fixed Rate shall be determined (1) by the Remarketing Agent, if the Remarketing Agent is engaged in connection with the conversion to Fixed Rate Bonds, not later than 12:00 noon, New York City time, on the Business Day prior to the Conversion Date; or (2) set forth in the firm underwriting or purchase contract described in Indenture. Such determination shall be conclusive and binding on the Issuer, the Trustee, any Credit Facility Provider and the Holders of the Bonds.

In determining the amount of interest and principal that shall be payable on the Interest Payment Dates, the Remarketing Agent or the firm of underwriters or recognized institutional investors (the "Firm") underwriting or purchasing the Bonds then being converted, shall use the following guidelines:

(i) The interest rate or rates and offering price or prices of the Bonds then being converted shall be determined by the Remarketing Agent to be the rate or rates and price or prices that, in the aggregate, produce the lowest yield on the Bonds being converted taking into account (A) any market premium determined by the Issuer Representative to be necessary and permitted under the Code, to fund fees and expenses relating to the remarketing of the Bonds, any deposit to the Reserve Fund and any amount owed upon termination of any Payment Agreement, (B) the principal amortization schedule for the Bonds, and (C) current market conditions for bonds that have similar tax status and a comparable credit rating.

(ii) The schedule of principal payments of the Bonds may be modified based on a mandatory sinking fund redemption schedule agreed to by the Issuer and the Firm, subject, in the case of the Bonds, to the receipt by the Trustee of a Favorable Opinion of Bond Counsel. If a Favorable Opinion of Bond Counsel is not received, all Bonds shall mature on the applicable Maturity Date and shall be subject to mandatory sinking fund redemption (or serial maturities pursuant to subparagraph (iii) below) on the dates and in the respective principal amounts established at the time of original delivery of the Bonds.

(iii) The Bonds may be scheduled to mature serially on October 1 in the years and respective principal amounts agreed to by the Issuer and the Firm and delivered to the Trustee, and the Remarketing Agent may establish more than one Fixed Rate to apply to the Bonds being converted to Fixed Rate Bonds, in accordance with this section, taking into account the scheduled mandatory redemption dates or serial maturity dates to be assigned to the Bonds, subject to the receipt by the Trustee of a Favorable Opinion of Bond Counsel.

(iv) At the option of the Issuer, to be exercised by delivery of a certificate of the Issuer Representative to the Trustee on or before the 45th day next preceding any scheduled mandatory redemption date, it may (A) deliver to the Trustee for cancellation Bonds subject to scheduled mandatory redemption on that date or portions thereof in Authorized Denominations or (B) specify a principal amount of Bonds or portions thereof in Authorized Denominations which prior to said date have been purchased or redeemed (otherwise than pursuant to this provision) and canceled by the Trustee at the request of the Issuer and not theretofore applied as a credit against any scheduled mandatory redemption payment of Bonds. Each Bond or portion thereof so delivered or previously redeemed will be credited by the Trustee at the principal amount thereof against the obligation of the Issuer to redeem Bonds on the scheduled mandatory redemption date or dates designated in writing to the Trustee by the Issuer Representative occurring at least 45 days after delivery of such designation to the Trustee, provided that if no such designation is made, such credit shall not be credited against such obligation. Bonds redeemed by optional or mandatory redemption will be credited against the mandatory redemption requirement for the Bonds of same maturity as provided for in the Indenture.

(h) Default Rate. While there exists a Payment Default, the interest rates on the Bonds that are not Credit Facility Provider Bonds (which Credit Facility Provider Bonds shall bear interest at the rates as provided in the Credit Facility) will be the Default Rate.

(i) Credit Facility Provider Bonds. Notwithstanding the above provisions of this Section, Credit Facility Provider Bonds shall bear interest at the Credit Facility Provider Rate and shall be payable at the times and by such means as provided in the Reimbursement Agreement. The Trustee shall register on its books and records the Credit Facility Provider as the Owner of such Credit Facility Provider Bonds, as directed by the Credit Facility Provider. The Credit Facility Provider Rate shall be supplied in writing to the Trustee by the Credit Facility Provider. If the Remarketing Agent has notified the Owner of any Credit Facility Provider Bonds that it has located a purchaser for some or all of that Owner's Credit Facility Provider Bonds, then, subject to the Indenture, that Owner must deliver those Credit Facility Provider Bonds to the Paying Agent for

purchase. Upon such delivery and receipt by that Owner of the Credit Facility Provider Bonds Purchase Price, and provided no Event of Default has occurred and is continuing under the Reimbursement Agreement, the Paying Agent shall notify the Trustee that the Bonds so purchased are no longer "Credit Facility Provider Bonds" and the Trustee shall note on the registration books for the Bonds that those Bonds are not Credit Facility Provider Bonds. Notwithstanding anything in the Indenture to the contrary, only the Credit Facility Provider or any Owner of Credit Facility Provider Bonds may receive interest on the Bonds at the Credit Facility Provider Rate.

For all purposes of the Indenture, payments of principal and interest on the Credit Facility Provider Bonds are secured in the same manner as payments of principal and interest on the Bonds. There shall be included in the calculation of principal and interest on the Bonds under the Indenture, any and all amounts owed by the Issuer to a Credit Facility Provider in accordance with Credit Facility Provider Bonds in respect of payments of principal and interest at the Credit Facility Provider Rate and all amounts payable in connection with a term loan or other term out provision under the Reimbursement Agreement.

Conversions Between Interest Rate Periods.

(a) Notice of Conversion. The Issuer may with the prior written consent of a Credit Facility Provider if the same Credit Facility will secure the Bonds before and after the conversion or a draw will be made upon such Credit Facility as a result of such conversion (provided that no such consent shall be required to convert to a Fixed Rate Period), elect to convert all of the Bonds from one Interest Rate Period to another Interest Rate Period (other than from a Fixed Rate Period) as follows:

(i) *Notices by Issuer.* The Issuer shall give written notice of any proposed conversion to the Trustee not fewer than seven Business Days (fourteen Business Days in the case of a proposed conversion to a Short-Term Rate Period) prior to the date the notice to affected Owners must be given pursuant to the Indenture.

(ii) *Notices by Trustee.* Upon receipt of the notice specified in the Indenture, the Trustee shall promptly give written notice of the proposed conversion, via Electronic Means or by written notice, to the Paying Agent, the Remarketing Agent, the Credit Facility Provider and any Rating Agency. The Trustee shall give notice (which may be combined, where applicable, with any notice required by the Indenture), by first class mail of the proposed conversion to the affected Owners of the Bonds not less than 10 days before the proposed Conversion Date. Such notice shall state:

(A) the proposed Conversion Date and the proposed Interest Rate Period to be effective on such date;

(B) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date;

(C) the conditions, if any, to the conversion pursuant to subsection (b), and the consequences of such conditions not being fulfilled pursuant to subsection (c);

(D) if the Bonds are in certificated form, information with respect to required delivery of the Bond certificates and payment of the Purchase Price; and

(E) the new Interest Payment Dates and Record Dates.

(b) Conditions to Conversion. With the exception of conversion to a fixed rate for which no written consent is required, conversion of Interest Rate Periods will become effective unless the prior written consent of the Credit Facility Provider, if the same Credit Facility will secure the Bonds before and after the conversion or a draw will be made upon such Credit Facility as a result of such conversion, is obtained, and

(i) If the conversion is from a Short-Term Rate Period, the Trustee has received, prior to the date on which notice of conversion is required to be given to Owners, written confirmation from the Remarketing Agent that it has not established and will not establish any Short-Term Interest Periods extending beyond the day before the Conversion Date; and

(ii) If the conversion is either (A) from a Short-Term Rate Period, a Weekly Rate Period or a Daily Rate Period to a Long-Term Rate Period or a Fixed Rate Period, or (B) from a Long-Term Rate Period to a Short-Term Rate Period, a Weekly Rate Period or a Daily Rate Period, the Issuer shall have provided to the Trustee and the Remarketing Agent, no later than one day before the Conversion Date, a Favorable Opinion of Bond Counsel, which opinion shall be confirmed in writing on the Conversion Date; and

(iii) Any Credit Facility to be held by the Trustee after the Conversion Date shall be in an amount equal to the aggregate principal amount of all of the Outstanding Bonds, plus an amount for payment of interest equal to at least (i) 43 days' interest (183 days' interest if the conversion is to Long-Term Rate Bonds or, if the conversion is to Short-Term Rate Bonds, the maximum number of days of a Short-Term Interest Period, as provided in Section 2.03(e)(i), plus five days), plus in the case of a Credit Facility that does not automatically reinstate coverage for interest following a drawing to pay interest on the Bonds, the number of days during which the Bonds may continue to bear interest until purchased upon mandatory tender under Section 3.08(a)(iv) of the Indenture following a drawing in which the Credit Facility Provider may notify the Trustee that interest coverage has not reinstated or (ii) in the event that a rating will be maintained on the Bonds, then such other number of days of interest as may be required by any Rating Agency rating the Outstanding Bonds; and

(iv) If the conversion is to a Fixed Rate Period, the Issuer's written notice pursuant to the Indenture shall also be provided to the Remarketing Agent and shall also specify the Conversion Date on which the Fixed Rate Period is to commence, and the Issuer shall deliver with such notice any Favorable Opinion of Bond Counsel required pursuant to the Indenture and a firm underwriting or purchase contract from a recognized firm of underwriters or recognized institutional investors, which can be the Remarketing Agent, to underwrite or purchase all of the Bonds at the interest rate or rates and offering price or prices of the Bonds then being converted determined by the Remarketing Agent to be the rate or rates and price or prices that, in the aggregate, produce the lowest yield on the Bonds being converted taking into account current market conditions for bonds that have similar tax status and a comparable credit rating. Upon receipt by the Trustee of such notice from the Issuer Representative, the Trustee shall promptly cause the same information contained in such notice to be delivered to the Paying Agent, the Credit Facility Provider and any Rating Agency. If required under the Indenture, a conversion to the Fixed Interest Rate shall not occur unless the Issuer shall also file with the Trustee any Favorable Opinion of Bond Counsel to the same effect dated the Conversion Date; and

(v) The conversion shall not occur unless the Conversion Date is a date on which Bonds being converted could be redeemed without premium pursuant to the Indenture; and

(vi) If the conversion is to a Short-Term Rate Period, (A) the Issuer must engage, at its expense, a commercial paper trustee and the paying agent (the "Issuing Agent"), reasonably acceptable to the Trustee, the Credit Provider and the Paying Agent, having access to the Securities Depository's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under the Securities Depository's policies and procedures for the issuance and payment of commercial paper; and (B) the Remarketing Agent must arrange for the execution and delivery to the Securities Depository of its required letter of representation for the eligibility of the Bonds in the Short-Term Rate Period in the Securities Depository's book entry system and the provision of any needed CUSIP numbers; and (C) the Issuer shall take all other action needed to comply with the Securities Depository's requirements applicable to the issuance and payment of the Bonds while in the Short-Term Rate Period; and (D) the Issuer shall enter into any amendment of the Indenture that is needed to comply with the Securities Depository's or any Rating Agency's requirements concerning the issuance and payment of the Bonds in the Short-Term Rate Period.

(vii) If the Conversion is to a Daily Rate Period, the Trustee, the Credit Facility Provider and the Remarketing Agent shall have agreed upon such modifications as may be necessary of the dates and times by which notices are to be given and draws, transfers, disbursements and deposits are to be made, as authorized by the Indenture, in order to market the Bonds as Daily Rate Bonds.

(c) Failure of Conditions to Conversion. In the event any condition precedent to a conversion is not fulfilled, (i) the Conversion Date shall not occur, (ii) the mandatory tender pursuant to the Indenture shall not occur and (iii) any affected Bond shall continue in the then existing Interest Rate Period with the length of the Interest Rate Period and the interest rate being determined in accordance with the Indenture. Notice of withdrawal of a conversion notice shall be given by the Issuer to the Trustee, the Remarketing Agent, the Paying Agent and the Credit Facility Provider by telephone, promptly confirmed in writing, and shall thereafter be promptly given to the Bondowners by the Trustee via Electronic Means or by first-class mail. No failure or cancellation of conversion pursuant to this subsection (c) shall constitute an Event of Default.

Provisions for Issuance of the Bonds. The Bonds shall forthwith be executed by the Issuer and delivered to the Trustee for authentication, together with a Written Order certifying that all conditions precedent to the authorization of the Bonds have been complied with and authorizing the Trustee to authenticate the Bonds. The Trustee shall authenticate and deliver the Bonds upon receipt of the Written Order described above, and upon the following having been made available to the Trustee:

A copy of the resolution or resolutions adopted by the Issuer authorizing the issuance of the Bonds and the execution and delivery by the Issuer of the Indenture, duly certified by the Secretary to have been duly adopted by the Issuer and to be in full force and effect on the date of such certification;

An Opinion of Bond Counsel, dated the date of delivery of the Bonds, to the effect that (i) the Issuer has lawful authority for the issuance of the Bonds, (ii) the Bonds constitute the legal, valid and binding special, limited obligations of the Issuer, payable in accordance with their terms and secured as provided in the Indenture, (iii) the Indenture has been duly and validly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the Issuer enforceable in accordance with its terms, and (iv) the interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State personal income taxation; provided, however, that with respect to (ii) and (iii), above, no opinion need be expressed as to the effect upon such enforceability of any limitations or remedies applicable to public agencies in the State of California, bankruptcy, insolvency, reorganization, moratorium and other laws or equitable principles, now or hereafter in effect and affecting the enforcement of creditors' rights generally;

1. A Written Order directing that the Trustee authenticate the Bonds and containing instructions as to the delivery of the Bonds;

2. The proceeds of the sale of the Bonds;

3. An Officer's Certificate stating that the Issuer is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Indenture;

4. A Written Order directing that the Trustee transfer a portion of the proceeds of the Bonds and a portion to the Escrow Agent in exchange for delivery of the Installment Purchase Agreement entered into on the Closing Date;

5. An original executed counterpart of the Indenture; and

6. The originals of the Credit Facility and the Installment Purchase Agreement.

Registration, Transfer and Exchange of Bonds

The Trustee is appointed Bond Registrar and as such shall keep the Bond Register at its Designated Office.

Any Bond may be transferred only upon the Bond Register upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer, the Issuer shall execute and the Trustee shall authenticate and deliver in exchange for such Bond a new Bond or Bonds, registered in the name of the transferee, of any denomination or denominations authorized by the Indenture and of the same maturity and bearing interest at the same rate.

Any Bonds, upon surrender thereof at the Designated Office of the Trustee, together with an assignment duly executed by the Registered Owner or his attorney or legal representative in such form as shall be satisfactory to the Trustee, may, at the option of the Registered Owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same maturity, of any denomination or denominations authorized by the Indenture, and bearing interest at the same rate.

In all cases in which Bonds shall be exchanged or transferred hereunder, the Issuer shall execute and the Trustee shall authenticate and deliver at the earliest practicable time such Bonds in accordance with the Indenture. All Bonds surrendered in any such exchange or transfer shall forthwith be canceled by the Trustee.

The Issuer, the Trustee or the Securities Depository may make a charge against the Bondowner requesting the same for every such transfer or exchange of Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange, and such charge shall be paid before any such new Bond shall be delivered. The fees and charges of the Trustee for making any transfer or exchange hereunder and the expense of any bond printing necessary to effect any such transfer or exchange shall be paid by the Issuer. In the event any Bondowner fails to provide a correct taxpayer identification number to the Trustee, the Trustee may impose a charge against such Bondowner sufficient to pay any governmental charge required to be paid as a result of such failure. In compliance with Section 3406 of the Internal Revenue Code, such amount may be deducted by the Trustee from amounts otherwise payable to such Bondowner hereunder or under the Bonds.

The Trustee shall not be required to (i) transfer or exchange any Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Bond and ending at the close of business on the day of such mailing, or (ii) transfer or exchange any Bond so selected for redemption in whole or in part, or during a period beginning at the opening of business on any Record Date for such Bond and ending at the close of business on the relevant Interest Payment Date therefor.

The Person in whose name any Bond shall be registered on the Bond Register shall be deemed and regarded as the absolute owner of such Bond for all purposes, and payment of or on account of the principal or Purchase Price of and redemption premium, if any, and interest on any such Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the interest thereon, to the extent of the sum or sums so paid.

At reasonable times upon prior Written Request and under reasonable regulations established by the Trustee, the Bond Register may be inspected and copied by the Issuer or by the Owners (or a designated representative thereof) of 10% or more in principal amount of the Bonds then Outstanding, such ownership and the authority of any such designated representative to be evidenced to the satisfaction of the Trustee.

Temporary Bonds. Until definitive Bonds are ready for delivery, the Issuer may execute, and upon the Written Request of the Issuer, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same limitations and conditions as definitive Bonds, temporary printed, engraved, lithographed or typewritten Bonds.

If temporary Bonds shall be issued, the Issuer shall cause the definitive Bonds to be prepared and to be executed and delivered to the Trustee, and the Trustee, upon presentation to it at its Designated Office of any temporary Bond shall cancel the same and authenticate and deliver in exchange therefor, without charge to the Owner thereof, a definitive Bond of the same maturity and bearing interest at the same rate as the temporary

Bond surrendered. Until so exchanged the temporary Bonds shall in all respects be entitled to the same benefit and security of the Indenture as the definitive Bonds to be issued and authenticated hereunder.

Mutilated, Lost, Stolen or Destroyed Bonds. In the event any Bond shall become mutilated, or be lost, stolen or destroyed, the Issuer shall execute and the Trustee shall authenticate and deliver a new Bond of like date and tenor as the Bond mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Issuer and the Trustee evidence of such loss, theft or destruction satisfactory to the Trustee, together, in either such case, with such security or indemnity as may be required by the Trustee to save the Issuer and the Trustee harmless. In the event any such Bond shall have matured or been selected for redemption, instead of issuing a substitute Bond the Trustee in its discretion may, instead of issuing a new Bond, pay, with funds available under the Indenture for such purpose, such Bond without surrender thereof (except in the case of a mutilated Bond). Upon the issuance of any substitute Bond, the Issuer and the Trustee may require the payment of an amount by the Bondowner sufficient to reimburse the Issuer and the Trustee for any tax or other governmental charge that may be imposed in relation thereto and any other reasonable fees and expenses incurred in connection therewith.

Cancellation and Destruction of Bonds Upon Payment. All Bonds which have been paid or redeemed or which the Trustee has purchased or which have otherwise been surrendered to the Trustee under the Indenture, either at or before maturity, shall be canceled and destroyed by the Trustee in compliance with all applicable laws and regulations and the record retention requirements of the Trustee upon the payment, redemption or purchase of such Bonds and the surrender thereof to the Trustee. The Trustee shall execute a certificate in triplicate describing the Bonds so canceled and destroyed, and shall file executed counterparts of such certificate with the Issuer.

The Remarketing Agent

The Remarketing Agent shall perform the duties of the Remarketing Agent pursuant to the Remarketing Agreement and the Indenture. Successor Remarketing Agents may be appointed from time to time by the Issuer with the prior written consent of the Credit Facility Provider (which consent shall not be unreasonably withheld). The Remarketing Agent shall be a corporation or other legal entity organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to perform all duties imposed upon the Remarketing Agent by the Indenture, and shall be either (a) a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or (b) a national banking association, commercial bank or trust company. So long as the Bonds are held in book-entry form at the Securities Depository, the Remarketing Agent must be a Participant in the Securities Depository with respect to the Bonds.

The Remarketing Agent appointed in accordance with the Indenture shall designate its Designated Office and signify its acceptance of the duties and obligations imposed upon it as described in the Indenture by a written instrument of acceptance delivered to the Issuer, the Trustee, the Paying Agent, the Issuer and the Credit Facility Provider or by executing and delivering a Remarketing Agreement, in either case under which the Remarketing Agent will agree, particularly:

(i) to hold all moneys delivered to it hereunder for the purchase of the Bonds in trust for the exclusive benefit of the Person or Persons that shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to or for the account of such Person or Persons;

(ii) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Trustee, the Paying Agent and the Issuer at all reasonable times;

(iii) to determine (A) the Daily Rates, Weekly Rates, Short-Term Rates and Long-Term Rates, and (B) if engaged as Remarketing Agent in connection with the conversion to Fixed Rate Bonds, the Fixed Rate(s), and give notice of such rates in accordance with Article II;

(iv) to remarket Daily Rate Bonds, Weekly Rate Bonds, Short-Term Rate Bonds and Long-Term Rate Bonds at rates no higher than the rate of interest available under the Credit Facility, if a Credit Facility secures the Bonds, and to remarket Short-Term Rate Bonds and Long-Term Rate Bonds for Short-Term Periods or Long-Term Interest Rate Periods, as appropriate, no longer than interest is available under the Credit Facility if a Credit Facility secures the Bonds all in accordance with the Indenture;

(v) to offer for sale and use its best efforts to find purchasers for the Bonds tendered for purchase, any such sale to be made in accordance with the terms of the Indenture;

(vi) to deliver to the Paying Agent all of the Bonds held by it in accordance with the terms of the Indenture and the Remarketing Agreement; and

(vii) to perform such other duties and responsibilities (including with respect to Credit Facility Provider Bonds) as are provided in the Indenture to be performed by a Remarketing Agent.

Notwithstanding the foregoing, a Remarketing Agent may be engaged for only certain types of Interest Rate Periods, and in that event the Remarketing Agent shall not be required to perform the duties of the Remarketing Agent for any other type of Interest Rate Period.

A Remarketing Agent may at any time resign and be discharged of the duties and obligations described in the Indenture with respect to the Bonds by giving at least 45 days' notice to the Issuer, the Trustee, the Paying Agent, the Credit Facility Provider and each Rating Agency. A Remarketing Agent may be removed at any time upon the Written Request of the Issuer and upon written notice to the Remarketing Agent, the Paying Agent, the Trustee and the Credit Facility Provider; provided, however, that no such removal shall be or become effective unless and until a successor Remarketing Agent shall have been appointed and accepted such appointment in accordance with subsection (a).

If and so long as no successor Remarketing Agent is appointed by the Issuer after the office of a Remarketing Agent becomes vacant, the Paying Agent or Trustee, at the expense of the Issuer, may petition a court to appoint a successor Remarketing Agent.

A Remarketing Agent may in good faith hold the Bonds or any other form of indebtedness issued by the Issuer; own, accept or negotiate any drafts, bills of exchange, acceptances or obligations thereof, and make disbursements therefor and enter into any commercial or business arrangement therewith; all without any liability on the part of the Remarketing Agent for any real or apparent conflict of interest by reason of any such actions.

Sale of Bonds by Remarketing Agent. Upon the receipt by the Remarketing Agent of (i) notice of tender of Daily Rate Bonds or Weekly Rate Bonds pursuant to the Indenture, or (ii) notice of mandatory tender of Bonds pursuant to the Indenture, the Remarketing Agent shall offer for sale and use its best efforts to solicit purchases of the Bonds subject to purchase on the Purchase Date at a price equal to the Purchase Price.

The Remarketing Agent shall direct that the proceeds of all purchases of the Bonds solicited and arranged by the Remarketing Agent be paid to the Paying Agent (for deposit in the Remarketing Proceeds Account), at or prior to 11:30 a.m., New York City time, on the Purchase Date, in immediately available funds (and, promptly upon receipt thereof, the Paying Agent shall deposit such proceeds in the Remarketing Proceeds Account).

At or prior to 4:30 p.m., New York City time, on the Business Day next preceding each Purchase Date (other than a Purchase Date arising with respect to a Bond bearing interest at a Daily Rate or a Weekly Rate), the Remarketing Agent shall give notice by telephone (promptly confirmed by Electronic Means) to the Trustee, the Paying Agent, the Credit Facility Provider and the Issuer specifying: (i) the aggregate principal amount and Purchase Price of the Bonds subject to purchase on such Purchase Date for which the Remarketing Agent has received indications of interest from prospective purchasers, and (ii) the aggregate principal amount and

Purchase Price of the Bonds subject to purchase on such Purchase Date for which the Remarketing Agent has not received indications of interest from prospective purchasers.

The Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of all Credit Facility Provider Bonds, prior to the sale and remarketing of any other Bonds, at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (at the rate that would be borne by such Credit Facility Provider Bonds if such Credit Facility Provider Bonds were not Credit Facility Provider Bonds). The Remarketing Agent shall not offer the Bonds to the Issuer. In connection with each remarketing of Credit Facility Provider Bonds by the Remarketing Agent:

(i) The Remarketing Agent shall (A) provide to the Issuer, the Credit Facility Provider, the Trustee and the Paying Agent not less than one Business Day's prior notice of such remarketing, and (B) pay, or cause to be paid to the Credit Facility Provider, by wire transfer of immediately available funds, the proceeds of such remarketing;

(ii) The Trustee shall (A) in consultation with the Credit Facility Provider, calculate the Credit Facility Provider Bonds Purchase Price, (B) in consultation with the Remarketing Agent, determine the amount of remarketing proceeds paid to the Credit Facility Provider by the Remarketing Agent, and (C) pay to the Credit Facility Provider, from moneys in the Bond Service Fund and by wire transfer of immediately available funds, the balance of the Credit Facility Provider Bonds Purchase Price owed to the Credit Facility Provider (representing the difference between the accrued interest on the Credit Facility Provider Bonds paid by the purchaser of the Credit Facility Provider Bonds and the accrued interest on those Credit Facility Provider Bonds at the Credit Facility Provider Rate);

(iii) The Trustee shall confirm with the Credit Facility Provider the receipt by that Credit Facility Provider of the Credit Facility Provider Bonds Purchase Price, the reinstatement of the Credit Facility in respect of the Credit Facility Provider Bonds and the authorization of that Credit Facility Provider to release such Credit Facility Provider Bonds; and

(iv) After, and only after, receipt by the Trustee of confirmation by the Credit Facility Provider of the reinstatement of the Credit Facility to cover such Credit Facility Provider Bonds following remarketing thereof and authorization by that Credit Facility Provider of such transfer or such authentication and delivery, the Trustee shall (A) while a book-entry system is in effect with respect to the Bonds, cause the ownership interest in such Credit Facility Provider Bonds to be transferred to or for the benefit of such purchaser or purchasers as are specified by the Remarketing Agent for such purpose, and (B) while a book-entry system is not in effect with the Securities Depository with respect to the Bonds, authenticate other Bonds in lieu of such Credit Facility Provider Bonds and deliver the same to or upon the instruction of the Remarketing Agent.

A Remarketing Agent shall offer for sale and use its best efforts to arrange for the sale and remarketing of (i) all of the Bonds subject to purchase on a Purchase Date that are purchased with moneys provided by the Issuer to the Paying Agent for such purpose (as described in the Indenture all of the Bonds that are purchased by the Issuer pursuant to the Credit Facility and not surrendered by the Issuer for cancellation.

Delivery of Purchased Bonds. Upon application of the moneys described in the Indenture to the purchase of Bonds on a Purchase Date pursuant to the Indenture (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to the Indenture, the Paying Agent shall cause the Trustee to register the transfer Bonds purchased therewith in the names of the purchasers thereof in accordance with information provided by the Remarketing Agent for such purpose and to have such transferred Bonds available for delivery against payment therefor.

Upon application of the moneys described in the Indenture to the purchase of Bonds on a Purchase Date pursuant to the Indenture (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to the Indenture, (i) the Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall constitute Credit Facility Provider Bonds, and (ii) if a book-entry system is

in effect with the Securities Depository with respect to the Bonds, the ownership interest in such Credit Facility Provider Bonds shall be transferred on the books of the Securities Depository to or for the account of the Paying Agent or a Participant acting on behalf of the Paying Agent and the Paying Agent shall, and shall cause such Participant to, mark its own books and records to reflect the beneficial ownership of such Credit Facility Provider Bonds by the Credit Facility Provider, and (iii) if a book-entry system is not in effect with the Securities Depository with respect to the Bonds, such Bonds shall be delivered by the Paying Agent to the Trustee for registration of transfer and shall be registered by the Trustee in the name of the Credit Facility Provider, or any nominee of the Credit Facility Provider, and delivered by the Trustee to the Paying Agent and held by the Paying Agent as the custodian of the Credit Facility Provider. The Paying Agent shall release and redeliver or transfer Credit Facility Provider Bonds (being remarketed by the Remarketing Agent) as provided in the Indenture. Any other disposition of Credit Facility Provider Bonds shall be made only at the written direction or with the prior written consent of the Credit Facility Provider.

Upon the application of moneys described in the Indenture to the purchase of Bonds on a Purchase Date pursuant to Indenture (and/or to the transfer thereof to the Undelivered Bond Payment Account on a Purchase Date pursuant to the Indenture), the Bonds purchased (or, in the case of such transfer, provided to be purchased) with such moneys shall be registered in the name of the Issuer and shall, at the direction of the Issuer, be delivered to the Trustee for cancellation (and canceled by the Trustee) or delivered to the Paying Agent for the account of the Issuer and remarketed in accordance with the Indenture.

Any Bonds canceled by the Trustee pursuant to this section and any Bonds surrendered by the Issuer to the Trustee for cancellation shall be allocated to the next succeeding scheduled mandatory redemption obligation pursuant to the Indenture**,** then as a credit against such future scheduled mandatory redemption obligation pursuant to the Indenture as the Issuer may specify in a Certificate of Issuer Representative; provided, however, that there shall be first redeemed any Outstanding Credit Facility Provider Bonds. Prior to the Expiration Date, the Trustee shall notify the Credit Facility Provider of the aggregate principal amount of the Bonds so canceled and shall submit to the Credit Facility Provider such documents, if any, as are required in accordance with the terms of the Credit Facility to cause the amounts available under such Credit Facility to be reduced in respect of such Bonds so canceled.

The Credit Facility

The Trustee shall make Credit Facility Requests in accordance with the Indenture. The Trustee shall only draw upon a Credit Facility when that Credit Facility is in a stated amount not less than (i) the aggregate principal amount of the Bonds, plus (ii) such number of days of interest as may accrue prior to any Interest Payment Date based on the Interest Rate Period then in effect, and the Trustee shall not draw upon a Credit Facility that by its terms is not available during the Interest Rate Period.

The Trustee shall not terminate or reduce the amounts available under a Credit Facility except by reason of the redemption, cancellation and/or defeasance of the Bonds. The Trustee shall not surrender a Credit Facility in the case of the expiration of a Credit Facility, issuance of a Substitute Credit Facility or otherwise until all draws under the existing Credit Facility have been honored.

The Issuer shall maintain a Credit Facility for the Bonds in effect in accordance with the Indenture at all times it is required to do so by this section.

The Issuer may furnish a Substitute Credit Facility in substitution for the then existing Credit Facility for the Bonds upon satisfaction of the conditions set forth in Indenture. The Trustee shall give notice to the Owners of the Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice), via Electronic Means or by first-class mail, of the proposed substitution of a Substitute Credit Facility for the Credit Facility then in effect for the Bonds and the Substitution Date (stating the issuer or issuers and the term of such Substitute Credit Facility) at least 10 days prior to such Substitution Date. Such notice shall also constitute the notice of mandatory tender of the Bonds on the related Substitution Date; provided, however, that if the Substitution Date is more than 15 days prior to the Expiration Date of the Credit Facility being replaced, in addition to the information required by the Indenture, such notice may state that such

mandatory tender of the Bonds will not occur if, on or prior to the proposed Substitution Date, the Trustee does not receive such Substitute Credit Facility, together with the supporting substitution documents. If, by reason of the conditions to such mandatory tender of the Bonds (as stated in such notice), there is no mandatory tender of that Bond on the proposed Substitution Date, (i) the Paying Agent shall so notify the Trustee, (ii) the Trustee shall so notify the Owners of the Bonds (at their addresses as they appear on the registration books of the Trustee as of the date of such notice) via Electronic Means or by first-class mail, and (iii) the Paying Agent shall return to their Owners any of the Bonds tendered to the Paying Agent in connection with such mandatory tender of Bonds.

No Credit Facility is required if the requirements of Indenture are met for the expiration of any Credit Facility without substitution of a Substitute Credit Facility.

Credit Facility; Substitute Credit Facility

During any time that Bonds are Daily Rate Bonds or Weekly Rate Bonds, the Issuer shall maintain a Credit Facility for the Bonds under which the Credit Facility Provider is required to purchase or provide funds for the purchase of the Bonds tendered for purchase in accordance with the Indenture. The Initial Credit Facility provides, and any Substitute Credit Facility may also provide, funds for the payment of principal and interest on the Bonds during Daily Interest Periods and Weekly Interest Periods. The Credit Facility shall be issued by a bank, trust company, national banking association, insurance company or other financial services company or entity or the Issuer, in an amount not less than (i) the aggregate principal amount of all Outstanding Bonds, plus (ii) an amount equal to at least 43 days' interest on all Bonds Outstanding at the Maximum Rate, plus (iii) in the case of a Credit Facility that does not automatically reinstate coverage for interest following a drawing to pay interest on the Bonds, the number of days during which the Bonds may continue to bear interest until purchased upon mandatory tender under Indenture following a drawing in which the Credit Facility Provider may notify the Trustee that interest coverage has not reinstated. The Issuer will not voluntarily terminate a Credit Facility while Bonds are Daily Rate Bonds or Weekly Rate Bonds without at least 60 days' prior written notice to the Trustee and without providing for a Substitute Credit Facility prior to the effective date of such termination.

At any time the Issuer may furnish a Substitute Credit Facility subject to the following limitations and the other limitations set forth in the Section:

(i) The principal amount of the Substitute Credit Facility must be not less than that required by Indenture.

(ii) The term of the Substitute Credit Facility must be at least 90 days.

(iii) On or prior to the effective date of a Credit Facility, the Issuer shall furnish to the Trustee:

(A) an Opinion of Counsel (which may be provided by separate law firms as to each required opinion) acceptable to the Trustee to the effect that the Credit Facility has been duly authorized, executed and delivered by the Credit Facility Provider and is a valid and binding obligation of the Credit Facility Provider enforceable in accordance with its terms (subject as to enforceability to standard exceptions respecting bankruptcy, insolvency and similar laws and principles of equity) and that the exemption of the Bonds (or any securities evidenced thereby) from the registration requirements of the Securities Act of 1933, as amended, and the exemption of the Indenture from qualification under the Trust Indenture Act of 1939, as amended, shall not be impaired by such Substitute Credit Facility or that the applicable registration or qualification requirements of such acts have been satisfied, and

(B) a Favorable Opinion of Bond Counsel.

(iv) The Issuer shall give written notice to the Trustee, the Paying Agent, the Credit Facility Provider, the Remarketing Agent and each Rating Agency, not less than 30 days prior to the Substitution Date and not less than 30 days prior to the Expiration Date of a Credit Facility then in effect, specifying that the Issuer intends to replace the Credit Facility with a Substitute Credit Facility on or before the Expiration Date of the Credit Facility then in effect.

(v) The Issuer shall cause to be delivered to the Trustee not less than 30 days prior to the Expiration Date of an existing Credit Facility a commitment by the Credit Facility Provider that will issue the Substitute Credit Facility. If the Substitution Date for that Substitute Credit Facility is less than 15 days prior to the Expiration Date for the existing Credit Facility, the City shall provide the Substitute Credit Facility or an irrevocable commitment therefor together with the opinion described in subparagraph (b)(iii) of this section not later than 15 days prior to the Expiration Date.

(vi) If there are outstanding any Credit Facility Provider Bonds, the Substitute Credit Facility must provide for the purchase of those Bonds.

Subrogation Rights of Credit Facility Provider

A Credit Facility Provider shall be subrogated to and assigned the rights possessed under the Indenture by the Owners of the Bonds to the extent the Credit Facility is drawn upon to pay regularly scheduled principal and interest on the Bonds and the amount of such drawing is not subsequently reimbursed to such Credit Facility Provider pursuant to the provisions of the Reimbursement Agreement, as long as the amount of such drawing has not been reimbursed. For purposes of the subrogation rights of a Credit Facility Provider hereunder, (a) any reference to the Owners of the Bonds shall mean the Credit Facility Provider, (b) any principal or interest on the Bonds paid with proceeds of the Credit Facility shall be deemed to be unpaid under the Indenture, and (c) the Credit Facility Provider may exercise any rights it would have as an Owner of the Bonds. The subrogation rights granted to such Credit Facility Provider in the Indenture are not intended to be exclusive of any other remedy or remedies available to a Credit Facility Provider and such subrogation rights shall be cumulative and in addition to every other remedy given under the Indenture, under the Reimbursement Agreement or under any other agreement or instrument with respect to the reimbursement of moneys paid by a Credit Facility Provider under a Credit Facility or with respect to security for the Reimbursement Obligations, and every other remedy now or hereafter existing at law or in equity.

To the extent that proceeds of a Credit Facility are used to pay regularly scheduled principal and interest or Purchase Price of the Bonds, those Bonds shall remain Outstanding for all purposes and shall be Credit Facility Provider Bonds and the Credit Facility Provider will be subrogated to and assigned the rights of and be deemed an assignee and subrogee of the Owners of those Bonds to receive the amount of such principal and interest, which principal and interest shall be deemed past due and not to have been paid, defeased or discharged within the meaning of the Indenture, and the transfer and assignment of property to the Trustee pursuant to the granting clauses hereof, and all covenants, agreement and other obligations of the Trustee to the Owners shall continue to exist and shall run to the benefit of the Credit Facility Provider and the principal and interest for such Credit Facility Provider Bonds shall bear interest as provided in the Reimbursement Agreement and the Credit Facility Provider Rate, and will otherwise be treated by the Trustee as the owner of such rights to the amount of such principal and interest. The Trustee, at the expense of the Issuer, shall register in the name of the Credit Facility Provider the ownership of that portion of the Bonds the principal of which was paid by such Credit Facility Provider from a draw or draws on the Letter of Credit, which draw was not reimbursed by the Issuer in accordance with the Reimbursement Agreement, at the expense of the Issuer. The Trustee also shall take such action as is reasonably necessary to evidence the Credit Facility Provider, as the assignee or subrogee of the Bonds for which interest payments have been made by the Credit Facility Provider from a draw or draws on the Letter of Credit.

Credit Facility Provider Deemed Holder of Bonds. Notwithstanding any provision to the contrary in the Indenture, so long as a Credit Facility Provider has not dishonored a proper drawing (which drawing strictly complies with, and conforms to, the terms and conditions of the Credit Facility) under the Credit Facility, such Credit Facility Provider shall be deemed the owner of 100% of the Bonds secured by the Credit Facility for the

purposes of receiving notice and of any action, notice, direction or consent permitted to be taken by the Owners of the Bonds, including consenting to amendments and supplements to the Indenture when consent is required as provided in the Indenture .

Modification of Dates and Times. Notwithstanding any other provision of the Indenture, the dates and times by which notices are to be given and draws, transfers, disbursements and deposits are to be made may be modified upon written approval by the Trustee of a letter of instructions from the Issuer, the Credit Facility Provider and the Remarketing Agent setting forth the preferred dates and times and written confirmation from each of the Rating Agencies that such changes will not affect the rating(s) on the Bonds.

FUNDS AND ACCOUNTS; APPLICATION OF MONEYS

Creation of Costs of Issuance Fund. A separate deposit account named the "Costs of Issuance Fund" is created in the custody of the Trustee for the deposit of funds to be used to pay, as long as they are legally appropriate, Costs of Issuance with respect to the Bonds and the refunding of the Series 2009A Bonds. Any amounts remaining in the Costs of Issuance Fund after payment of all fees and expenses shall be transferred to the District, and shall be used for any lawful purpose of the District.

Creation of Bond Service Fund and Accounts Therein. The Trustee shall establish a Bond Service Fund that shall be held and administered as set forth in the Indenture for the benefit of the Bond Owners and the Credit Facility Provider. Within the Bond Service Fund the Trustee shall establish two accounts, the Credit Facility Account and the Issuer Account each of which must be Eligible Accounts.

Such accounts shall be maintained for deposits into the Bond Service Fund (and the investment income on such deposits) for the purpose of distinguishing between and determining the respective amounts and sources of moneys held therein at all times.

(a) Credit Facility Account. All amounts drawn under a Credit Facility for payment of principal and interest on the Bonds shall be deposited directly into the appropriate subaccount of the Credit Facility Account, which subaccount shall not hold any other moneys. The moneys in the Credit Facility Account shall be held in cash and not invested. The Issuer shall have no interest in the Credit Facility Account. With respect to each Credit Facility, each subaccount of the Credit Facility Account and the money therein shall be used solely and exclusively for the payment of principal and interest on the Bonds secured by the Credit Facility as those principal and interest come due. Notwithstanding any other provision in the Indenture, the pledge and lien of the Indenture with respect to such applicable subaccount and the money therein shall only secure the payment of principal and interest on the Bonds.

(b) Issuer Account. The Issuer Account is established to reimburse the Credit Facility Provider for draws on the Credit Facility as set forth in the Indenture, and, if there is no Credit Facility in place, to make principal, interest and redemption payments on the Bonds. Within the Issuer Account the Trustee shall establish three subaccounts, the Interest Subaccount, the Principal Subaccount and the Redemption Subaccount.

Draws on Credit Facility for Payment of Principal and Interest. Except with respect to principal and interest on Credit Facility Provider Bonds held pursuant to the Indenture and Bonds held by the Issuer, the Trustee shall, in accordance with the Credit Facility for each date on which principal and/or interest for the Bonds are due (or such other time as may be provided in the Credit Facility then held by the Trustee), submit a Credit Facility Request to the Credit Facility Provider requesting funds in the amount of those principal and/or interest, and, not later than 1:00 p.m., New York City time, on that Payment Date, the Trustee shall deposit the proceeds of the Credit Facility Request in the applicable subaccount of the Credit Facility Account. If for any reason such funds are not timely received in response to such Credit Facility Request or the Credit Facility is repudiated, the Trustee shall draw funds from the applicable subaccounts of the Issuer Account of the Bond Service Fund and, if such funds are not sufficient, then the Trustee shall notify the Issuer and request payment directly to the Trustee of those funds from the Issuer such that timely payment for the Owner can be made on any Interest Payment Date. Any moneys paid to the Trustee by a Credit Facility Provider under a Credit Facility shall be used solely to pay principal and interest on the Bonds as provided in this section.

Upon any acceleration of Bonds by the Trustee under the Indenture, the Trustee shall immediately draw on the Credit Facility for the payment of the Bonds. The amount so drawn shall be deposited in the subaccount of the Credit Facility Account of the Bond Service Fund and shall be used solely for the payment of the Bonds.

Deposits to and Payments From Bond Service Fund; Reimbursement of Credit Facility Provider.

(a) At least two Business Days prior to each Interest Payment Date, the Issuer shall: (i) deposit into the Interest Subaccount of the Issuer Account Interest Receipts in an amount sufficient to pay the interest on the Bonds due on that Interest Payment Date (assuming for purposes of this section that for any day for which the Daily Rate or Weekly Rate, as the case may be, has not been determined as of the deposit date, the Bonds bearing interest at a Daily Rate or Weekly Rate shall be considered to bear interest at a rate equal to the most recently determined rate plus 50 basis points), (ii) deposit into the Principal Subaccount of the Issuer Account Principal Receipts in an amount that, if deposited in approximately equal monthly installments would be sufficient, taking into account other moneys on deposit in the Principal Subaccount of the Issuer Account available therefor, to pay the principal of the Bonds payable on the next ensuing Principal Payment Date, whether by mandatory sinking fund redemption or due at stated maturity, and (iii) deposit into the Redemption Subaccount of the Issuer Account an amount needed to pay the Redemption Price payable on any redemption date of any Bonds called for redemption prior to maturity (other than by mandatory sinking fund redemption). In addition to the foregoing payment amounts on deposit in the Issuers Account shall be applied to pay the Bonds to the extent principal and amounts of the Bonds then outstanding and accrued interest thereon are declared immediately due and payable under the Indenture.

(b) To the extent that proceeds of a Credit Facility are used to pay Principal and interest on the Bonds on any Interest Payment Date or Principal Payment Date, the Trustee shall pay to the Credit Facility Provider on the applicable payment date from moneys deposited by the Issuer in the Interest Subaccount, Principal Subaccount, or Redemption Subaccount as applicable, of the Issuer Account, amounts sufficient to reimburse the Credit Facility Provider for the interest or principal or redemption price, as applicable, of the Bonds paid from proceeds of the Credit Facility. In the event that amounts on deposit in the subaccounts of the Issuer Account of the Bond Service Fund are insufficient to reimburse the Credit Facility Provider for amounts drawn on the Credit Facility on any Interest Payment Date or Principal Payment Date for the payment of interest or principal then due and payable on the Bonds, the Trustee shall transfer moneys from the Reserve Fund to the appropriate subaccount of the Issuer Account of the Bond Service Fund on that same Interest Payment Date or Principal Payment Date in an amount sufficient to fully reimburse the Credit Facility Provider for the amount drawn on the Credit Facility on the same date. To the extent that the Credit Facility Provider is not fully reimbursed on the same date on which funds are drawn on the Credit Facility, the Credit Facility Provider will be subrogated to the rights of the Owners of the Bonds to receive the amount of such Principal and interest from the Issuer, plus additional interest at the rate provided in the Reimbursement Agreement for amounts past due.

Rebate Fund. The Trustee shall create a fund known as the Rebate Fund. Money and investments in the Rebate Fund shall not be used for the payment of Principal and interest, and any provision in the Indenture to the contrary notwithstanding, amounts credited to the Rebate Fund shall be free and clear of any lien of the Indenture. Money and investments in the Rebate Fund shall be invested pursuant to the procedures and in the manner provided in the Indenture

At least five days prior to the end of the fifth Bond Year and each fifth Bond Year thereafter (each such date a "Computation Date"), the Issuer shall engage and the Trustee and the Issuer shall furnish information to an independent certified public accounting firm or other rebate analyst designated by the Issuer Representative, to calculate, within fifteen days after each Computation Date, the Rebate Amount with respect to the Bonds as of that Computation Date (the "Calculation"). If, at least ten days prior to any Computation Date, the Issuer has not engaged and notified the Trustee that it has engaged such an independent certified public accounting firm or other Person to calculate, within fifteen days after each Computation Date, the Rebate Amount with respect to those Bonds as of such Computation Date, the Trustee shall, at the expense of the Issuer, engage such a Person so as to cause such Rebate Amount to be so calculated.

Upon receipt of the Calculation, the Trustee shall notify the Issuer in writing of the amounts so calculated and of the amount then on deposit in the Rebate Fund. If the amount then on deposit in the Rebate Fund is in excess of the Rebate Amount as of that Computation Date, the Trustee shall forthwith pay the excess amount to the Issuer. If the amount then on deposit in the Rebate Fund is less than the Rebate Amount with respect to the Bonds as of that Computation Date, the Issuer shall deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Rebate Amount as of that Computation Date.

Within sixty days after the end of the fifth Bond Year and every fifth Bond Year thereafter, the Issuer (or the Trustee acting on behalf of the Issuer), shall pay to the United States of America in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the Issuer may determine) of the Rebate Amount earned from the date of the original delivery of the Bonds to the end of such fifth Bond Year (taking into account the future value of the Rebate Amount, if any, previously paid to the United States pursuant to this section in accordance with the applicable Treasury Regulations). Within sixty days after the payment in full of all outstanding Bonds, the Trustee, acting on behalf of the Issuer, shall pay to the United States of America in accordance with Section 148(f) of the Code from the money then on deposit in the Rebate Fund an amount equal to 100% of the Rebate Amount earned from the date of the original delivery of the Bonds to the date of payment in full of all outstanding Bonds (taking into account the future value of the Rebate Amount, if any, previously paid to the United States of America pursuant to this section in accordance with the applicable Treasury Regulations) and any moneys remaining in the applicable account of the Rebate Fund following such payment shall be paid to the Issuer.

The Issuer and the Trustee shall obtain and keep such records of the computations made pursuant to this section as are required under Section 148(f) of the Code. The Trustee shall be entitled to rely on the calculations made pursuant to this section and shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in reliance upon those calculations.

If the Issuer, at its expense, provides an opinion of nationally recognized bond counsel to the Trustee that such action will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the Bonds, the Issuer may, without the consent of or notice to any Bondholders, enter into agreements supplemental to the Indenture to the extent necessary or desirable to (i) combine the Rebate Fund with other funds or funds or accounts, or change the custodian of the Rebate Fund, or (ii) otherwise modify, supplement or replace this section consistent with the covenants of the Issuer in the Indenture.

If at any time the Issuer at its expense, provides an opinion of nationally recognized bond counsel to the Trustee that failure to comply with this section or any part of this section would not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Issuer and the Trustee may discontinue compliance with this section or part of this section to the extent set forth in that opinion.

Creation of Purchase Fund; Purchase of Bonds by Paying Agent.

(a) The Paying Agent shall establish a special trust fund for the Bonds to be designated the Purchase Fund. Within the Purchase Fund, the Paying Agent shall establish four separate accounts, each of which must be an Eligible Account, to be designated the Remarketing Proceeds Account, the Credit Facility Proceeds Account, the Issuer Purchase Account and the Undelivered Bond Payment Account. Only the Paying Agent shall have any right of withdrawal from the Purchase Fund; and the Purchase Fund and such right of withdrawal shall be for the sole and exclusive benefit of the Owners of the Bonds subject to purchase on Purchase Dates (and the Credit Facility Provider to the extent provided in subsection (e)); and neither the Issuer nor any owner of a Bond not subject to purchase on a Purchase Date shall have any legal, beneficial or equitable interest in the Purchase Fund. Amounts on deposit in the Purchase Fund shall be held uninvested and without bearing interest. Amounts in a particular account of a Purchase Fund shall not be commingled with amounts in any other account of the Purchase Fund. Any moneys received by the Paying Agent by reason of the remarketing by the Remarketing Agent of Bonds subject to purchase on a Purchase Date shall be deposited by the Paying Agent in the Remarketing Purchase Account and applied by the Paying Agent in accordance with

subsections (d) and (e). Any moneys received by the Paying Agent representing amounts paid by the Credit Facility Provider under the Credit Facility for the purchase of Bonds subject to purchase on a Purchase Date shall be deposited by the Paying Agent in the Credit Facility Proceeds Account and applied by the Paying Agent in accordance with subsections (d) and (e). Any moneys received by the Paying Agent representing amounts paid by the Issuer for the purchase of Bonds subject to purchase on a Purchase Date shall be deposited by the Paying Agent in the Issuer Purchase Account of the Purchase Fund and applied by the Paying Agent in accordance with subsections (d) and (e). Moneys shall be transferred to the Undelivered Bond Payment Account from the other accounts of the Purchase Fund or to the Credit Facility Provider in accordance with subsection (e); and moneys shall be applied from the Undelivered Bond Payment Account in accordance with subsection (f). Notwithstanding any other provision in the Indenture, the pledge and lien of the Indenture with respect to the Purchase Fund and the accounts therein and all money therein shall only secure the payment of the Purchase Price of the Bonds, subject to purchase on a Purchase Date.

(b) Upon receipt of any Electronic Means or written notice of tender relating to Daily Rate Bonds, the Paying Agent immediately shall notify the Remarketing Agent, the Issuer, the Trustee and the Credit Facility Provider by telephonic notice of the amount of the Bonds to be tendered pursuant to such notice. The Paying Agent shall confirm such telephonic notice by Electronic Means by 11:15 a.m., New York City time, on the Purchase Date, with the Paying Agent including in such telephonic notice and the confirmation thereof the amount of the Purchase Price of the Bonds and the portion, if any, thereof representing accrued and unpaid interest on the Bonds to the Purchase Date. Upon receipt of written or Electronic Means notice of tender relating to Weekly Rate Bonds, the Paying Agent shall, not later than 5:00 p.m., New York City time, on the next Business Day, send notice of such tender to the Issuer, the Remarketing Agent, the Trustee and the Credit Facility Provider by Electronic Means, with the Paying Agent including in such notice the amount of the Purchase Price of the Bonds and the portion, if any, thereof representing accrued and unpaid interest on the Bonds to the Purchase Date. Simultaneously with the giving of notice of any mandatory tender of the Bonds pursuant to the Indenture, the Trustee shall give notice by Electronic Means, promptly confirmed by a written notice, to the Paying Agent, the Remarketing Agent, the Credit Facility Provider and the Issuer specifying the Purchase Date, the aggregate principal amount and Purchase Price of the Bonds subject to mandatory tender on such Purchase Date, and the portion, if any, of such Purchase Price representing accrued and unpaid interest on such Bonds to such Purchase Date.

(c) Not later than 11:30 a.m., New York City time, on each Purchase Date, the Remarketing Agent shall notify the Trustee, the Paying Agent and the Credit Facility Provider by Electronic Means, promptly confirmed by a written notice of (i) the Purchase Price of the Bonds to be sold by the Remarketing Agent and (ii) the Purchase Price of the Bonds tendered for purchase which will not be sold by the Remarketing Agent, and the Paying Agent shall then determine the amount, if any, by which the Purchase Price of the Bonds to be purchased on such Purchase Date exceeds the amount of the proceeds of the remarketing of such Bonds by the Remarketing Agent on deposit in the Remarketing Proceeds Account at such time and shall immediately give telephonic or Electronic Means notice of that amount to the Trustee, the Issuer and the Credit Facility Provider, which notice shall be promptly confirmed in writing; and

(i) if a Credit Facility is in effect on such Purchase Date, then, except with respect to Credit Facility Provider Bonds held pursuant to the Indenture and Bonds held by the Issuer, (A) the Trustee shall submit in accordance with the terms of the Credit Facility and by such time as is required to receive funds on the Purchase Date for the payment of the Purchase Price, a Credit Facility Request to the Credit Facility Provider requesting the purchase by that Credit Facility Provider under the Credit Facility, or the funding by the Credit Facility Provider under the Credit Facility of moneys for the purchase, of the Bonds having a Purchase Price equal to the amount of such excess, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Trustee shall transfer to the Paying Agent and the Paying Agent shall deposit the proceeds of the Credit Facility Request received by the Trustee in the Credit Facility Proceeds Account; or

(ii) if no Credit Facility is in effect on such Purchase Date, then (A) not later than 12:30 p.m., New York City time, on such Purchase Date, the Paying Agent shall notify the Issuer that the amount of such excess is the amount payable by the Issuer to the Paying Agent for purposes of causing

the Paying Agent to purchase on behalf of the Issuer such Bonds having a Purchase Price equal to such excess, and (B) not later than 2:30 p.m., New York City time, on such Purchase Date, the Paying Agent shall deposit the amount, if any, received by the Paying Agent from the Issuer for such purpose in the Issuer Purchase Account.

(d) Not later than 2:45 p.m., New York City time, on each Purchase Date, the Paying Agent shall disburse the Purchase Price of the Bonds to be purchased on such Purchase Date to the Owners thereof (upon surrender thereof for payment of such Purchase Price), from the following sources and in the following order of priority:

(i) Moneys on deposit in the Remarketing Proceeds Account (representing the proceeds of the remarketing by the Remarketing Agent of such Bonds);

(ii) If a Credit Facility is in effect on such Purchase Date, moneys on deposit in the Credit Facility Proceeds Account (representing the proceeds of a Credit Facility Request); and

(iii) Moneys on deposit in the Issuer Purchase Account (representing amounts paid by the Issuer to the Paying Agent for the purchase of such Bonds). If a Credit Facility is in effect for the Bonds, then the Issuer has no obligation to deposit moneys in the Issuer Purchase Account for, and has no obligation to purchase, tendered Bonds that are not remarketed.

If the funds available (from the sources indicated above) for the purchase of the Bonds subject to purchase on a Purchase Date are insufficient to purchase all of the Bonds subject to purchase on such Purchase Date (including Undelivered Bonds), then, no purchase of any Bonds shall occur on such Purchase Date and, on such Purchase Date, the Paying Agent shall (i) return all of such Bonds that were tendered to the Owners thereof, (ii) return all moneys received by the Paying Agent for the purchase of such Bonds to the respective Persons that provided such moneys (in the respective amounts in which such moneys were so provided), and (iii) notify the Trustee of the foregoing. If the Credit Facility is in effect, no such failure to purchase the Bonds shall constitute an Event of Default under the Indenture. From the date of the failed Purchase Date until all such Bonds that were to be purchased on the Purchase Date are further remarketed or purchased in accordance with the terms of this section, such Bonds shall bear interest at the Default Rate.

(e) Any moneys remaining in the Remarketing Proceeds Account, the Credit Facility Proceeds Account or the Issuer Purchase Account and representing (but not exceeding) the Purchase Price of the Bonds subject to purchase on the Purchase Date but not tendered and delivered for purchase on the Purchase Date (following the payments described in subsection (d)) shall be transferred by the Paying Agent to the Undelivered Bond Payment Account not later than 3:30 p.m., New York City time, on the Purchase Date (and retained therein, subject to subsection (a), for application in accordance with subsection (f)). Any moneys remaining in the Remarketing Proceeds Account, the Credit Facility Proceeds Account and the Issuer Purchase Account on a Purchase Date (after the payments described in subsection (d) and the transfer described in the preceding sentence of this subsection (e)) shall be wire transferred by the Paying Agent, in immediately available funds, prior to the close of business on such Purchase Date, to the Credit Facility Provider, to the extent of any amounts owed to the Credit Facility Provider in respect of a Credit Facility Request, and then to the Issuer.

(f) Moneys transferred to the Undelivered Bond Payment Account of the Purchase Fund on any Purchase Date shall be applied, on or after such Purchase Date, by the Paying Agent to pay the Purchase Price of the Undelivered Bonds in respect of which they were so transferred, upon the surrender of such Bonds to the Paying Agent for such purpose.

(g) Notwithstanding the foregoing, in the event that a Bond is converted to a Fixed Rate and remarketed at a premium over par, remarketing proceeds received by the Paying Agent in excess of the amount required to pay the Purchase Price of the Bonds tendered for purchase shall be delivered by the Paying Agent to the Trustee for deposit in a separate account in the custody of the Trustee. Such excess remarketing proceeds shall be disbursed by the Trustee in accordance with the written directions of the Issuer Representative to pay

fees and expenses relating to the conversion and remarketing, to make any deposit to the Reserve Fund, and to pay any amount owed upon early termination of any Payment Agreement.

Investment of Funds. So long as the Bonds are Outstanding and there is no default hereunder, moneys on deposit to the credit of any of the subaccounts established under the Issuer Account or Reserve Fund shall, at the facsimile request of an Authorized Officer, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Trustee in Investment Securities, and moneys held in the Rebate Fund shall, at the facsimile request of an Authorized Officer, confirmed in writing within two Business Days, specifying and directing that such investment of such funds be made, be invested by the Trustee in Government Obligations provided; however, moneys in the Reserve Fund may not be invested in LAIF. Notwithstanding any provisions of the Indenture to the contrary, moneys on deposit in the Remarketing Proceeds Account shall be held uninvested and shall not be commingled with any other Funds or Accounts hereunder. The Trustee is entitled to rely on said instructions for purposes of this section. If no such instructions are provided, the Trustee shall invest such funds exclusively in Investment Securities of the type described in subparagraph (vii) of the definition thereof. Such investments shall have maturity dates, or shall be subject to redemption by the owner, at the option of the owner on or prior to the dates the moneys invested therein will be needed for the purposes of such Funds.

The securities purchased with the moneys in each such fund or account shall be deemed a part of such fund or account and shall be valued at the lower of their cost or market value at least monthly. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments hereunder, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. The interest, including realized increments on securities purchased at a discount, received on all such securities (after deduction for accrued interest, commissions, if any, and premium paid from such fund or account at the time of purchase) shall be deposited by the Trustee in the fund or account from which such investment was made. The Trustee shall not be liable or responsible for any consequences resulting from any such investment or resulting from the redemption, sale or maturity of any such investment as authorized pursuant to this the Indenture. If at any time it shall become necessary that some or all of the securities purchased with the moneys in any such fund or account be redeemed or sold in order to raise moneys necessary to comply with the provisions of the Indenture, the Trustee shall effect such redemption or sale, employing, in the case of a sale, any commercially reasonable method of effecting the same and shall not be responsible for any loss resulting therefrom.

Investments in the Issuer Account may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions in the Indenture for transfer to or holding in particular funds or accounts amounts received or held by the Trustee, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds or accounts to which they are credited and otherwise as provided in the Indenture. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of Investment Securities and shall be entitled to the customary fee therefor.

To the extent that any of the requirements concerning Investment Securities embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, in form and content satisfactory to Trustee, that such requirement has been met.

PARTICULAR COVENANTS OF THE AUTHORITY

Payment of Credit Provider and the Bonds. The Issuer will promptly pay from the Principal Receipts and Interest Receipts and other funds and collateral pledged hereunder, amounts due to the Credit Provider under the Reimbursement Agreement and the principal or Redemption Price of, and the interest on, every Bond issued under and secured by the Indenture (including Credit Facility Provider Bonds) at the places, on the dates and in the manner specified in the Indenture (and the Credit Facility, in the case of Credit Facility Provider Bonds) and in said Bonds according to the true intent and meaning thereof. The Issuer shall not issue any bonds, notes or other evidence of indebtedness or incur any obligations payable from or secured by the Trust Estate.

Enforcement of Installment Purchase Agreement. The Issuer shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of the Installment Purchase Agreement, including the requirement of prompt payment of all principal and interest payments and all other amounts due the Issuer thereunder. The Issuer shall not release the obligations of any obligor under the Installment Purchase Agreement and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Issuer, the Credit Provider and of the Owners of the Bonds under or with respect to the Installment Purchase Agreement; provided that this provision shall not be construed to prevent the Issuer from settling a default on the Installment Purchase Agreement and on such terms as the Issuer, after consultation with the Trustee, shall determine to be in the best interests of the Issuer and the Owners of the Bonds.

Amendment of Installment Purchase Agreement. The Issuer shall not consent or agree to or permit any amendment or modification of the Installment Purchase Agreement which will in any manner impair or materially adversely affect the rights or security of the Credit Facility Provider or the Owners of the Bonds under the Indenture. In determining whether any amendment or modification will in any manner impair or materially adversely affect the rights or security of the Credit Provider or the Owners of the Bonds under the Indenture the Issuer may rely on an opinion of counsel.

Further Documents. The Issuer covenants that it will from time to time execute and deliver such further instruments and take such further action as may be reasonable and as may be required to carry out the purpose of the Indenture; provided, however, that no such instruments or actions shall pledge the faith and credit or the taxing power of the State or any political subdivision of the State.

Tax Covenants. The Issuer will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Issuer or take or omit to take any action that would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code, or obligations which are "federally guaranteed" within the meaning of Section 149(b) of the Code.

The Issuer covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code. The Issuer will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Issuer, or take or omit to take any action, that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the Issuer will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the Issuer is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, the Issuer shall so instruct the Trustee in writing, and shall cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds. The Issuer specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under this section the Rebate Requirement, as described in the Tax Certificate.

Notwithstanding any provision of the Indenture, if the Issuer shall provide to the Trustee an Opinion of Bond Counsel to the effect that any action required under the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the Issuer and Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

DEFAULTS AND REMEDIES

Events of Default. In case one or more of the following events, in the Indenture referred to as the "Events of Default," shall happen and be continuing, that is to say, if

(A) payment of interest on the Bonds shall not be made when the same shall become due and payable; or

(B) payment of the principal or Redemption Price of the Bonds shall not be made when the same shall become due and payable; or

(C) the Issuer shall fail to observe or perform in any material way any covenant, condition, agreement or provision contained in the Bonds or in the Indenture on the part of the Issuer to be performed other than those set forth in the Indenture, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Issuer by the Trustee, which notice shall be given by the Trustee at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of all Bonds then Outstanding; provided, however, that if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected provided, further, that such period for cure shall not exceed sixty (60) days; or

(D) the District shall fail to make any payment due under the Installment Purchase Agreement; or

(E) the District shall fail to observe or make any default in any material way any covenant, condition, agreement or provision on its part to be performed contained in any instrument authorizing the issuance of any other parity or subordinate securities having a lien on the District's Net Revenues, as defined in the Master Installment Purchase Agreement; then, the Trustee shall and, subject to the provisions of the Indenture at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding, shall, by notice in writing delivered to the Issuer, declare that an Event of Default exists and is continuing and pursue all remedies set forth in the Indenture.

Proceedings by Trustee. Upon the happening and continuance of any Event of Default, the Trustee at the written request of the Owners of not less than 25% in aggregate principal amount of Bonds Outstanding shall do the following:

(A) declare the entire principal amount of the Bonds then Outstanding and the interest accrued thereon, immediately due and payable, whereupon they shall, without further action, become and be immediately due and payable, anything in the Indenture or the Bonds notwithstanding.

(B) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Issuer to enforce all rights of the Owners of Bonds, including the right to require the Issuer to receive and collect Interest Receipts and Principal Receipts and to require the Issuer to carry out any other covenant or agreement with the Owners of Bonds and to perform its duties hereunder;

(C) bring suit upon the Bonds;

(D) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Credit Provider and the Owners;

(E) as a matter of right, have a receiver or receivers appointed for the Trust Estate and of the revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(F) take such action with respect to the Installment Purchase Agreement or Investment Securities as the Trustee shall deem necessary and appropriate, subject to the terms of the Indenture hereof and to the terms of the Installment Purchase Agreement or Investment Securities.

Effect of Discontinuance or Abandonment. In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Issuer, the Trustee, the Credit Provider and the Owners shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Rights of Owners. Anything in the Indenture to the contrary notwithstanding, subject to the limitations and restrictions as to the rights of the Owners in the Indenture, upon the happening and continuance of any Event of Default, the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, with the consent of the Credit Facility Provider (unless the Credit Facility Provider has failed to honor a properly presented and conforming draw on the Credit Facility), shall have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability without adequate indemnification therefor.

Restriction on Owner's Action. In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in the Indenture, no Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds secured by the Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds; subject, however, to the provisions of this section. Notwithstanding the foregoing provisions of this section or any other provision of the Indenture, the obligation of the Issuer shall be absolute and unconditional to pay, but solely from the Trust Estate, the principal and Redemption Price of, and interest on, the Bonds to the respective Owners thereof at the respective due dates thereof, and nothing in the Indenture shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Power of Trustee to Enforce. All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceedings instituted by the Trustee shall be brought in its own name, as trustee, for the equal and ratable benefit of the Owners of the Bonds subject to the provisions of the Indenture.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver. The Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of an Event of Default, upon the written request of the Owners of at least a majority in aggregate principal amount of all Outstanding Bonds. If any Event of Default shall have been waived as in the Indenture provided, the Trustee shall promptly give written notice of such waiver to the Issuer and shall give notice thereof by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default, or impair any right or remedy consequent thereon.

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default shall impair any such right or Owner or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein; and every power and remedy given pursuant to the Indenture to the Trustee, and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys. Any moneys (other than payments under the Credit Facility and remarketing proceeds) received by the Trustee pursuant to the Indenture shall, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

(A) unless the principal of all of the Outstanding Bonds shall be due and payable,

FIRST - To the payment of the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege;

SECOND - To the payment of the persons entitled thereto of the unpaid principal and Redemption Price of any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal and Redemption Price of such Bonds due on any particular date, then to the payment ratably, according to the amounts of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To be held for the payment to the persons entitled thereto as the same shall become due of the principal and Redemption Price of, and interest on, the Bonds, which may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available shall not be sufficient to pay in full such principal and Redemption Price due on any particular date, together with interest then due and owing thereon, payment shall be made in accordance with the FIRST and SECOND paragraphs hereof.

(B) if the principal of all of the Outstanding Bonds shall be due and payable, to the payment of the principal, Redemption Price and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, Redemption Price or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal, Redemption Price and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such

application in the future. The Trustee shall give, by mailing by first class mail as it may deem appropriate, such notice to the Owners, and the Credit Provider of the deposit with it of any such moneys.

CONCERNING THE TRUSTEE

Appointment and Acceptance of Duties. The Trustee accepts and agrees to the trusts created to all of which the Issuer agrees and the respective owners of the Bonds, by their purchase and acceptance thereof, agree.

Duties, Immunities and Liabilities of Trustee. The Trustee shall, 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 specifically set forth in the Indenture and no implied duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, 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 individual would exercise or use under the circumstances in the conduct of his own affairs.

The Issuer shall 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 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this section, or shall become incapable of acting, or shall commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving 30 days prior written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may resign by giving written notice of such resignation to the Issuer and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Bond Register. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and shall have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, or any Owner (on behalf of himself and all other 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 shall signify its acceptance of such appointment by executing and delivering to the Issuer and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall 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, including the Credit Facility or Substitute Credit Facility; but, nevertheless, at the written request of the Issuer or of the successor Trustee, such predecessor Trustee shall 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 shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth, including the Credit Facility or Substitute Credit Facility. Upon request of the successor Trustee, the Issuer shall 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. Any such successor Trustee shall promptly notify each Paying Agent of its appointment as Trustee. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts hereunder by first class mail, postage prepaid, to the Owners at their addresses listed in the Bond Register.

Any Trustee appointed under the provisions of this section shall be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having a combined capital and surplus of at least seventy-five million dollars ($75,000,000), and subject to supervision or examination by federal or state authority. If such bank 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 this subsection the combined capital and surplus of such bank or trust company shall 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 shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this section.

No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.

In accepting the trust created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Issuer of the funds under the Indenture. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Indenture or the existence, furnishing or use of the Installment Purchase Agreement or Investment Securities.

The Trustee shall not be responsible for the sufficiency, timeliness or enforceability of the revenues and payments of principal and interest pursuant to the Installment Purchase Agreement and the Investment Securities and of its rights to receive Interest Receipts and Principal Receipts.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under the Installment Purchase Agreement or the Master Installment Purchase Agreement unless and until it shall have actual knowledge thereof.

The Trustee shall not be accountable for the use or application by the Issuer or any other party of any funds which the Trustee has released under the Indenture.

The Trustee may employ attorneys, agents or receivers in the performance of any of its duties hereunder and shall not be answerable for the misconduct of such attorney, agent or receiver selected by it with reasonable care.

Merger or Consolidation. Any company into which the Trustee or any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee or any Paying Agent may sell or transfer all or substantially all of its corporate trust business provided such company shall be eligible under the Indenture, shall succeed to the rights and obligations of such Trustee or Paying Agent, as the case may be, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Compensation and Indemnification. The Issuer shall pay the Trustee reasonable compensation for its services rendered hereunder and shall reimburse the Trustee for reasonable expenses (including professional fees and expenses) incurred by the Trustee in the performance of its obligations hereunder.

The Issuer agrees, to the extent permitted by law, to indemnify the Trustee, the Bond Registrar, the Tender Agent and any Paying Agent and their respective officers, directors, members, employees, attorneys and agents for, and to hold them harmless against, any loss, liability or expense incurred without negligence or willful default on their part arising out of or in connection with the acceptance or administration of the trusts imposed by the Indenture, including performance of their duties hereunder and under the Installment Purchase Agreement, including the costs and expenses of defending themselves against any claims or liability in

connection with the exercise or performance of any of their powers or duties hereunder. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect though the Bonds are no longer Outstanding.

Liability of Fiduciaries. The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Issuer, and neither the Trustee nor any Paying Agent assumes any responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Indenture or of the Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. Neither the Trustee nor any Paying Agent shall be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The Trustee or any Paying Agent may become the Owner of Bonds with the same rights they would have if they were not Trustee or Paying Agent, respectively, and, to the extent permitted by law, may act as depository for and permit any of their 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 Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Right to Rely on Documents. The Trustee and any Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, 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 and any Paying Agent may consult with counsel, who may be counsel of or to the Issuer, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee or any Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate, and such Certificate shall be full warrant to the Trustee or Paying Agent for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee or any Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee or any Paying Agent under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Issuer and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Indemnity for Trustee. Before taking any action under the Indenture (other than requesting a payment under the Credit Facility, making payment on the Bonds when due and causing any mandatory tender of Bonds), the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses which it may incur and to protect it against all liability, except liability which may result from its negligence or willful default, by reason of any action so taken.

Appointment and Acceptance of Paying Agents. The Trustee is appointed and does accept its appointment as Paying Agent for the Bonds. The Issuer may at any time or from time to time appoint one or more other Paying Agents for the Bonds, in the manner and subject to the conditions set forth in the Indenture for the appointment of a successor Paying Agent. Each Paying Agent (other than the Trustee) shall signify its acceptance of the duties and obligations imposed upon it by written instrument of acceptance deposited with the Issuer and the Trustee.

The Paying Agent may act as paying agent for purposes of paying principal, premium, if any, and interest with respect to the Bonds and shall act as registrar for purposes of optional or mandatory purchase of Bonds, pursuant to Article II hereof. The Paying Agent, if other than the Trustee, shall designate its principal

office and signify its acceptance of all of the duties and obligations imposed upon it hereunder by executing and delivering a written instrument signifying its acceptance hereof to the Issuer, with copies delivered to the Trustee, the Remarketing Agent, and the Credit Provider. The Issuer shall from time to time, on demand, pay to the Paying Agent reasonable compensation for its services and shall reimburse the Paying Agent for all its advances and expenditures, including but not limited to advances to and reasonable fees and expenses of counsel and other experts employed by it in the exercise and performance of its powers and duties hereunder.

Except as otherwise expressly provided in the Indenture, no provision of the Indenture shall require the Paying Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers hereunder.

Resignation or Removal of Paying Agent; Appointment of Successor. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving written notice of such resignation to the Issuer, and the Credit Provider, and the Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the Issuer, subject to the written consent of the Credit Provider. Any successor Paying Agent shall be appointed by the Issuer, with the approval of the Trustee and the Credit Provider and the Remarketing Agent, and shall be a bank having the powers of a trust company or trust company, having a capital stock and surplus aggregating at least $50,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

MODIFICATION OF INDENTURE AND SUPPLEMENTAL INDENTURES

Supplemental Indentures Without Consent of Owners. Subject to the conditions and restrictions contained in the Indenture and subject to approval by resolution of the Issuer, the Issuer may, without the consent of the Owners, enter into a Supplemental Indenture or Supplemental Indentures, which thereafter shall form a part of the Indenture, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed, and to surrender any right or power in the Indenture reserved to or conferred upon the Issuer; provided that no such covenant, agreement or surrender shall materially adversely affect the interests of the Owners;

(ii) to cure any ambiguity, to supply any omission or to cure, correct or supplement any defect or inconsistent provisions contained in the Indenture or in any Supplemental Indenture;

(iii) to make any change which does not materially adversely affect the rights of the Credit Provider or any Owner;

(iv) to grant to the Trustee for the benefit of the Credit Provider or the Owners additional rights, remedies, powers or authority;

(v) to subject to the Indenture additional collateral or to add other agreements of the Issuer;

(vi) to modify the Indenture or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar Federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(vii) to evidence the succession of a new Trustee or the appointment by the Trustee or the Issuer of a co-Trustee; or

(viii) to make such changes in the Indenture as are necessary for the Rating Agencies to increase the ratings on the Bonds.

Nothing in Article X of the Indenture contained shall affect or limit the right or obligation of the Issuer to execute and deliver to the Trustee any instrument of further assurance or other instrument which elsewhere in the Indenture it is provided shall be delivered to the Trustee.

Trustee Authorized to Enter Supplemental Indenture. The Trustee is authorized to enter into with the Issuer any Supplemental Indenture authorized or permitted by the terms of the Indenture, and to make the further agreements and stipulations which may be therein contained, and the Trustee, in entering into any Supplemental Indenture, shall be fully protected in relying on an opinion of counsel, in form and substance satisfactory to the Trustee, to the effect that such Supplemental Indenture is authorized or permitted by the provisions of the Indenture.

Supplemental Indentures With Consent of Owners. Any modification or alteration of the Indenture or of the rights and obligations of the Issuer or of the Owners of the Bonds in any particular may be made with the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding. No such modification or alteration shall be made which will reduce the percentage of aggregate principal amount of Bonds the consent of the Owners of which is required for any such modification or alteration, or permit the creation by the Issuer of any lien prior to or on a parity with the lien of the Indenture upon the Trust Estate or which will affect the times, amounts and currency of payment of the principal or Redemption Price of, or interest on, the Bonds or affect the rights, duties or obligations of the Trustee, the Paying Agent or the Bond Registrar without the consent of the parties affected thereby.

For all purposes of the Indenture, the Trustee shall be entitled to rely upon an opinion of counsel with respect to the extent, if any, to which any action affects the rights under the Indenture of any Owners of Bonds then Outstanding.

Notwithstanding the foregoing, no modification, alteration or supplement to the Indenture that affects the rights, duties or obligations of the Credit Provider under the Credit Facility shall become effective hereunder without the prior written consent of the Credit Provider.

Amendment Upon Conversion and Remarketing. The Indenture and the rights and obligations of the Authority, the Bondowners and the Trustee hereunder may also be amended or supplemented as of the Conversion Date by an amendment or supplement to the Indenture which shall become binding on such Conversion Date, with the prior written consent of the Credit Facility Provider, if a Credit Facility is then in place, but without the written consents of any Bondowner, but only to the extent permitted by law and only if the Series 2012A Bonds have been remarketed by the Remarketing Agent for purchase on such Conversion Date with such amended or supplemented rights or obligations.

DEFEASANCE

If and when the Bonds secured shall become due and payable in accordance with their terms or through redemption proceedings as provided in the Indenture, or otherwise, and the whole amount of the principal, or Redemption Price and the interest so due and payable upon all of the Bonds shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable under the Indenture by the Issuer, including all fees and expenses of the Trustee, then and in that case, the Indenture and the lien created thereby shall be discharged and satisfied and the Issuer shall be released from the covenants, agreements and obligations of the Issuer contained in the Indenture, and the Trustee shall assign and transfer to or upon the order of the Issuer all property (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and shall execute such documents as may be reasonably required by the Issuer in this regard.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the Issuer shall have kept, performed and observed all the covenants and promises in

such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Issuer or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Issuer hereunder shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, redemption or optional or mandatory tender of the Bonds, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, Redemption Price and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture contained therein relating to the compensation and indemnification of the Trustee shall remain in effect and shall be binding upon the Trustee and the Issuer.

If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bonds in the Long-Term Interest Rate Period and the interest installments therefor at the maturity or redemption date thereof, or for any other Bonds in any Interest Rate Period (except for any Long Term Interest Rate Period through maturity), on the first available call or tender date (which shall include both optional or mandatory tenders) such Bonds shall be deemed to be paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bond or Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Indenture if (a) in case said Bonds are to be redeemed on any date prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, on a date in accordance with the provisions of Article III of the Indenture, notice of redemption of such Bonds on said redemption date, such notice to be given in accordance with the provisions of the Indenture, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of a nationally recognized independent certified public accountant), to pay when due the principal or Redemption Price (if applicable) of, and interest due and to become due on, said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event any of said Bonds are not to be redeemed within the next succeeding sixty (60) days, the Issuer shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to the Indenture, a notice to the Owners of such Bonds and to the Securities Depositories and an Information Service that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this section and stating such maturity or redemption dates upon which moneys are to be available for the payment of the principal or Redemption Price (if applicable) of said Bonds. Neither the securities nor moneys deposited with the Trustee pursuant to this section nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price (if applicable) of, and interest on said Bonds; provided that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the Issuer, be reinvested in Government Obligations maturing at times and in amounts, together with the other moneys and payments with respect to Government Obligations then held by the Trustee pursuant to this section, sufficient to pay when due the principal or Redemption Price (if applicable) of, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Order so directing, be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien or pledge.

Any release under this section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by this Indenture created and the performance of its powers and duties under the Indenture; provided, however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Indenture.

Moneys Held for Particular Bonds. Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held uninvested in trust by it for the Owners of the Bonds entitled thereto without liability for interest therefor.

Special Conditions Prior to Expiration Date. For purposes of determining whether Bonds (other than Bonds in a Long-Term Interest Rate that shall be in effect until the final maturity date of the Bonds) shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Governmental Obligations and moneys, the interest evidenced by such Bonds and to come due on such Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of available moneys and Government Obligations on deposit with the Trustee for the payment of interest evidenced by Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Bonds in order to satisfy the conditions in the Indenture, the Trustee shall, if requested by the Issuer and provided with a verification of a nationally recognized independent certified public accountant pay the amount of such excess to the Issuer free and clear of any trust, lien, security interest, pledge or assignment securing the Bonds or otherwise existing under the Indenture.

Bonds subject to optional or mandatory tender pursuant to the Indenture shall be deemed to have been paid in accordance with the Indenture only if, in addition to satisfying the requirements of said section, there shall have been deposited with the Trustee moneys (which moneys shall remain uninvested and available for payment of the Bonds) in an amount which shall be sufficient to pay when due the maximum amount of principal, premium, if any, and interest on such Bonds which could become payable to the Owners of such Bonds upon the exercise of any tender provided to the Owners of such Bonds. If any portion of the moneys deposited with the Trustee for the payment of the principal, premium, if any, and interest of such Bonds is not required for such purpose the Trustee shall, if requested by the Issuer, pay the amount of such excess to the Issuer free and clear of any trust, lien, security interest, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

Anything in this section to the contrary notwithstanding, the agreements and covenants of the Issuer and the Trustee under the Indenture and the pledge of and lien on the Trust Estate as provided in the Indenture shall not be discharged and shall continue for the benefit of the Credit Provider so long as amounts are owed to the Credit Provider under the Liquidity Agreement.

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APPENDIX C
AUDITED FINANCIAL STATEMENTS

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WESTERN MUNICIPAL WATER DISTRICT

Securing Your Water Supply

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

14205 Meridian Parkway • Riverside, CA 92518 • wmwd.com

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Western Municipal Water District
of Riverside County, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2011

Prepared by:

The Western Municipal Water District Finance Department

14205 Meridian Parkway, Riverside, California 92518
951.571.7100 www.wmwd.com

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Western Municipal Water District

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

Table of Contents

INTRODUCTORY SECTION

Transmittal Letter i
GFOA Certificate of Achievement xvii
District Service Area Map xviii
District Officials xix
Organization Chart xx

FINANCIAL SECTION

Independent Auditors' Report 1
Management's Discussion and Analysis 3
Basic Financial Statements:
- Statements of Net Assets 19
- Statements of Revenue, Expenses and Changes in Net Assets 21
- Statements of Cash Flows 22
- Notes to the Basic Financial Statements 23

STATISTICAL SECTION

Statistical Section Contents 60
Financial Trends:
- Table I Net Assets by Component 61
- Table II Changes in Net Assets 62
- Table III Revenues by Source 63
- Table IV Expenses by Function 64
- Chart I Revenues and Expenses 65

Revenue Capacity:
- Table V Active Water Accounts by Meter Size 66
- Table VI Retail Water Accounts by Type and Retail Wastewater Accounts 67
- Table VII Water and Sewer Rates 68
- Table VIII Principal Retail Water Customers 69
- Table IX Wholesale Water Customer Deliveries 69
- Table X Summary of Imported Water Rates 70
- Table XI Water Sources 71

Table of Contents (continued)

Debt Capacity:

Table XII Ratio of Outstanding Debt by Type 72
Table XIII Revenue Bond Coverage 73
Table XIV Direct and Overlapping Debt 74
Chart II District and Contributed Capital Spending 75
Chart III Total Debt to Assets 75

Demographic and Economic Information:

Table XV Demographic and Economic Statistics 76
Table XVI Principal Employers in the County of Riverside 77
Table XVII District Employees by Function 78

Operating Information:

Table XVIII Operating and Capital Indicators 79

Introductory Section

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WESTERN
MUNICIPAL
WATER
DISTRICT

John V. Rossi
General Manager

Charles D. Field
Division 1

Thomas P. Evans
Division 3

Brenda A. Dennstedt
Division 2

Donald D. Galleano
Division 4

S.R. Al Lopez
Division 5

January 26, 2012

To the Board of Directors and customers served by the Western Municipal Water District of Riverside County:

We are pleased to present the Western Municipal Water District's (the District or Western) Comprehensive Annual Financial Report for the year ended June 30, 2011.

The report was prepared by the District's Finance Department following guidelines recommended by the Governmental Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including disclosures, rests with the District. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District.

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). The letter of transmittal is designed to complement Management's Discussion and Analysis and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent audit firm.

The District's financial statements have been audited by Rogers, Anderson, Malody and Scott, LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Reporting Entity and Its Services

District's Service Area

The District's service area consists of a 527-square mile area of western Riverside County that lies west of the I-215 Freeway. Within the District's boundaries are the cities and communities of Jurupa, Rubidoux, Riverside, Norco, Corona, Lake Elsinore, Canyon Lake, Murrieta and Temecula. The District provides imported water to its service area as a supplement to the region's local water supply.

The assessed valuation of the District's service area has grown from less than $150 million when formed in 1954 to almost $66 billion in this past fiscal year. Riverside County's population has increased to approximately 2.2 million, of which the District serves approximately 894,100 (40%).

District's Authority

The District was formed by voters on January 19, 1954 under the Municipal Water District Act of 1911 for the purpose of distributing supplemental water purchased from The Metropolitan Water District of Southern California (MWD) to a growing western Riverside County. Prior to the District's creation, the local water supply was primarily groundwater wells.

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 or the owners of rights to water in the District.

The Municipal Water District Act of 1911 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 provision for service; and to fix in each 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.

Governance

The District is a quasi-governmental agency (Special District) of the State of California. It is not regulated by the Public Utilities Commission, but instead is governed by a Board of five directors who are publicly elected for a four-year term from comparably sized districts (Divisions) based on population.

Since the year of its inception, the District has been a member of The Metropolitan Water District of Southern California (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 District representative on the Metropolitan Board. Assessed value of property in the service area of the member agency determines how many directors each agency is allowed.

The District currently employs a staff of 112 under the direction of the Board-appointed General Manager. The District's General Manager is a court-appointed Watermaster with responsibilities for reporting compliance with water quality and quantity provisions of court orders regarding water rights issues in the Santa Ana River watershed.

Water Services

The District serves more than 23,000 retail accounts and eight wholesale customers with water from both the Colorado River and the State Water Project purchased from The Metropolitan Water District, and from well water. In fiscal year 2011, the District delivered approximately 80,000 acre-feet of water. This is equal to about 25 billion gallons. About two-thirds of the water Western delivered was treated; the balance was untreated or raw water. About 12% of deliveries were for agricultural uses, the balance was for domestic purposes. 70% of deliveries were to wholesale customers, the rest to retail users.

Wholesale customers that buy water from the District and in turn sell the water to their own customers are: Box Springs Mutual Water Company, City of Corona, City of Norco, City of Riverside, Eagle Valley Mutual Water Company, Elsinore Valley Municipal Water District, Lee Lake Water District, and Rancho California Water District.

Filter basins at MWD's Henry J. Mills Treatment Plant

The only water treatment facility owned by the District is the Arlington Desalter. The Arlington Desalter is a $33 million, 6.7 million gallons per day (MGD) reverse osmosis water treatment plant that provides approximately 4,500 acre-feet of high quality potable water to the City of Norco by removing millions of pounds of salts from brackish groundwater in the Arlington Basin.

Reverse osmosis membranes at the Desalter

Alson Pump Station in Murrieta

Retail Water Services

Western supplies water directly to about 21,000 agricultural and domestic users in the areas of El Sobrante, Eagle Valley, Temescal Creek, Woodcrest, Lake Mathews, March Air Reserve Base, Rainbow Canyon, and portions of the city of Riverside. In addition, Western provides water to nearly 2,500 customers within a 6.5 square mile area in and around historic downtown Murrieta. The Murrieta Service Area, unlike most of Western's retail service areas, has local groundwater that supplements imported water supplies.

Sewer Services

Western Water Recycling Facility

The District owns and operates the Western Water Recycling Facility, providing wastewater collection and treatment for the March Air Reserve Base and other residential and commercial customers located southeast of the City of Riverside.

Western Riverside County Regional Wastewater Authority (WRCRWA) Wastewater Treatment Plant

WRCRWA was formed in 1992 as a Joint Exercise of Powers Agency to construct, maintain, operate and manage facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater and the use of reclaimed wastewater for any beneficial purpose. The District is one of the five member agencies comprising WRCRWA. Since 1998, the District has been the contract operator of the WRCRWA wastewater treatment plant located near the Santa Ana River west of the City of Norco. The operations contract with WRCRWA is ongoing, yet can be cancelled by either party with a 60-day notice. The treatment plant has a total capacity of 8.0 MGD, and currently processes an average of 6.5 MGD from residential and commercial wastewater customers, some of which are in the District's retail service area. Of the total plant capacity of 8.0 MGD, the District owns capacity rights of 1.93 MGD. Wastewater flows from District customers is approximately 0.67 MGD, or 35% of the District's capacity right.

Murrieta Service Area

The Murrieta service area provides wastewater collection and transmission services to approximately 2,000 customers surrounding the historic downtown area of the City of Murrieta. Treatment of approximately 500,000 gallons per day of wastewater from the Murrieta area is provided under contract by Rancho California Water District (RCWD). Eastern Municipal Water District (EMWD) provides treatment services to approximately 63 Murrieta commercial customers. RCWD and EMWD invoice the District monthly for services. The District passes through these charges, plus an administrative and maintenance charge, to its customers.

Brine Line

The Brine Line, formerly known as the Santa Ana Regional Interceptor (SARI), is an industrial wastewater disposal system owned by the Santa Ana Watershed Project Authority (SAWPA). The Brine line is designed to convey 30 million gallons per day of non-reclaimable wastewater from the upper Santa Ana River basin area to the ocean for disposal after treatment by the Orange County Sanitation District. The non-reclaimable wastewater consists of desalter brine concentrate and industrial wastewater. The District is a member agency of SAWPA and is contracted by SAWPA for administration, operation, and maintenance of the Brine Line for approximately 80% of the 73-mile pipeline system. The District operates a trucked wastewater disposal station located at the City of Corona's Wastewater Treatment Plant #1 which has a connection to the Brine Line.

Economic Conditions and Outlook

As with all industries, the water industry is affected by a wide variety of economic factors including legislative action, regulatory requirements, labor force skill and availability, etc. Four major factors that particularly affect the District are: (1) the availability and cost of imported water, (2) energy costs, (3) attempts by the State to take property tax revenue, and (4) the economic downturn/recession.

While the current drought may have ended, the goal of water use efficiency still remains. As stewards of this nature resource, it is incumbent upon us to help communicate the value of this resource and assist our customers in using it wisely. In October 2011 the District implemented a revenue neutral water budget rate structure for retail treated water customers. This structure provides a site-specific efficient water budget to meet individual customer's indoor and outdoor water needs. This structure is not intended to change lifestyles, but rather to assist in using water resources efficiently. Customers that are inefficient in their water use pay progressively higher rates to recover the cost of additional water supplies to meet the demand.

Other than limited groundwater sources in the Murrieta service area, the District relies exclusively on the Metropolitan Water District for treated water for its retail customers. As the entire state faces water cutbacks, Metropolitan is experiencing an increase in the cost of acquiring water and delivering that water to member agencies, such as Western. As a result, Metropolitan's Tier 1 rate for full service treated water will increase from $744 per acre-foot to $794 per acre-foot, on January 1, 2012. Western is limited to 20,457 acre-feet of water that can be purchased at the Tier 1 rate for its retail customers, and each additional acre-foot of water is charged at the Tier 2 rate, which is $126 higher than the Tier 1 rate.

View from the shore of Lake Mathews, terminus of the Colorado River Aqueduct. Western's 10 million gallon La Sierra tank is at the base of the opposing shore, and the 1.3 million gallon Old Lake tank is on top of the hill.

The energy price and supply volatility experienced by the District (and indeed all of southern California) in the early-to-mid 2000s has abated somewhat. This can be attributed to a number of supply side and demand side factors. Although the regional electric grid still can be challenged during the hottest summer months, rolling brown-outs or black-outs have not been experienced in recent years. Absent large-scale natural disasters, both electricity and natural gas supplies are expected to remain stable in the near future with prices closely tracking the nominal inflation rate.

Because of the historically strong growth in property tax revenue, the District has relied on property tax revenue to buffer the increases in operating expenses related to delivering water to retail customers, and to provide a source of capital for investment in regional water infrastructure. Until December, 2007, the District maintained this policy and had not raised rates for full service water since 1998, and not since 1995 for agricultural water. As a result of the shift of property tax revenue to the State during its budget crisis in fiscal years 2005 and 2006, property tax revenue was significantly reduced in those years. Although the potential for the State to take similar action in the future has abated, the District has begun to reduce its dependence on property taxes. During 2010 the Board of Directors of Western approved a new $0.07 per hundred cubic feet (HCF) Water Reliability Charge with revenue set aside specifically to pay for future capital projects that will increase system reliability and develop local water sources. This charge will increase by $0.07 per HCF each January 1st through 2015. Water rate increases will likely continue in the future due to increased costs of labor, energy and imported water from MWD.

Growth in the communities served by the District has slowed dramatically as a result of the downturn in the economy. The District's assessed valuation decreased by approximately 2.2% to $65.9 billion in fiscal year 2011, from $67.4 billion in fiscal year 2010. Additionally, the lack of growth in the service area continues to keep property taxes stagnant. As a result of the declining property values, the District received $15.1 million in property tax revenue for fiscal year 2011, down from $16.3 million in fiscal year 2010, a decrease of approximately 7.1%. The District continues to work with other government agencies to fight off attempts by state officials to alleviate a portion of the massive state budget deficit by permanently taking or borrowing local property tax revenue.

The population of Riverside County grew to 2.2 million in fiscal year 2011, from 2.1 million in fiscal year 2010. Riverside County's population growth is expected to remain slow, reflecting the decline in new housing construction and the decrease in employment opportunities. Nevertheless, the District continues to plan for and construct the necessary infrastructure to accommodate the significant long-term growth expected in the region. In addition, the District is aggressively pursuing alternative sources of water and expanding conservation efforts, as well as developing increased use of nonpotable and reclaimed water where appropriate.

Major Initiatives

Since growth in the District's service area will eventually return, efforts to reduce regional dependence on imported water are at the forefront of District planning and construction activities. With the exception of wells in the District's Murrieta service area and water from the Arlington Desalter, the source of the District's water is external. Unplanned outages at Metropolitan's filtration plants as well as the ever present threat of regional drought conditions necessitates that the District pursue projects that will create clean, more reliable local water supplies and reduce its dependence on imported water.

Western Water Recycling Facility

Western completed the single largest construction contract in its history when the upgraded and expanded Western Water Recycling Facility came online in spring 2011. This $59 million expansion from 1.0 million gallons per day (MGD) to 3.0 MGD will allow the District to accommodate the developing areas in Woodcrest and Cajalco, as well as the Meridian Business Center. By adding tertiary treatment (filtration) capability and a new pump station, Western is able to extend recycled water deliveries to nearly 50 additional customers. One key design consideration for the 3.0 MGD facility was energy efficiency, and energy efficient motors and starters were specified throughout the plant. By partnering with Southern California Edison and their "Savings by Design" program, Western received a rebate check for nearly $150,000, along with the knowledge that reduced energy costs would stretch out into future years.

Aerial view of Western Water Recycling Facility

Currently, treated water from the plant is reclaimed for irrigation and used at the Riverside National Cemetery and the General Old Golf Course. With the new treatment

capabilities, tertiary treated water can be used for irrigation at selected locations in the District's Riverside service area. An extensive program is ongoing that will convert the District's nonpotable distribution system to convey recycled water and retrofit individual customer sites to accommodate recycled water use. Among the customers are schools, commercial nurseries and citrus groves. Future efforts will expand the nonpotable/recycled distribution system to reach parks, churches and medians.

Santa Ana Sucker Task Force

In December 2010, the U.S. Fish and Wildlife Service (Service) doubled the critical habitat area for the Santa Ana Sucker fish that lives in the Santa Ana River. Western, along with 11 other agencies, filed suit against the Service on August 23 over a critical habitat ruling that could cost 1 million Southern Californians a third of their water supply.

The collaborating agencies believe that the Service violated several tenets of the Endangered Species Act (ESA), which requires the federal agency to consult with and work cooperatively with state and local agencies; to base is decisions on the best available science; and to balance the need of endangered species with the needs of humans who are likely to be affected by critical habitat rulings. When it came to designating an expanded critical habitat area for the Sucker, the Service not only failed to consult with or work cooperatively with state and local agencies, but it based its decisions on unscientific survey data, unpublished reports that have not been peer reviewed as well as published reports that, ironically, contradict the Service's arguments.

In the notice of intent to file a lawsuit, the Task Force reminded the Service that they have spent the past 10 years successfully developing and implementing a Santa Ana Sucker Conservation Program that is already working to recover and restore habitats for this endangered species in collaboration with the California Department of Fish and Game. The program has produced significant research, including reproductive monitoring surveys, the development of population estimates, increased project management, habitat surveying and mapping as well as invasive species removal.

Chino Desalter Authority

The Chino Basin Desalter Authority (CDA) is a joint powers authority comprised of Western Municipal Water District, Inland Empire Utilities Agency, Jurupa Community Services District, Santa Ana River Water Company, and the Cities of Chino, Chino Hills, Norco, and Ontario. As a member of the CDA, Western is the lead agency in sponsoring the Chino Desalter Phase 3 Expansion project. This project includes expanding the Chino II Desalter, expanding the raw water well fields, and adding additional product water delivery facilities. The Phase 3 Expansion Project will also facilitate hydraulic control of the Chino Basin to protect downstream water quality in Orange County. Completion of the entire project will increase the total desalter water production from 24,600 to 35,200 acre-feet per year (AFY). As a result, Western will receive 3,534 AFY and Jurupa Community Services District and the City of Ontario will each receive an additional

3,533 AFY to add to their current desalter supply. The total project cost is estimated to be $112 million with Western's share totaling $43.4 million. Western's cost may be reduced through expected grant funding. Project grant funding currently totals $15 million. A financial incentive agreement has been signed with The Metropolitan Water District of Southern California that provides an offset to operating costs of up to $139 per AF of water produced.

Strategic Information Technology (IT) Master Plan (SITMP)

The District has embarked on the fulfillment of a Strategic IT Master Plan; the original plan was developed in 2006, and a major update was completed in 2011. The Plan provided the District with an assessment of its current IT infrastructure and identified all of the current key business processes based on extensive interaction with District staff. In addition, from these meetings with staff a strategic vision and goals document was developed along with the identification of desired service levels. Implementation of the IT Master Plan is a long-term, multi-year process. This process enables the District to improve response to current and future business drivers and achieve its mission in an efficient and effective manner all supported by integrated technology that crosses departments. The District has completed implementation of several major initiatives, and is now in the process of continuous improvements:

- Enterprise Resource Planning (ERP). The ERP is a series of best-of-breed software applications for accounting/inventory/procurement, customer service/ utility billing, and payroll/human resources.

    - The customer service/utility billing portion went live in September 2009.
    - The accounting/inventory/procurement portion went live in August 2010.
    - The payroll/human resources portion went live in October, 2010.

- Computerized Work Management System (CWMS). This system will automate maintenance scheduling and manage operational work flows, and expand into a full enterprise asset management system for assessing life-cycle costs, identifying repair/replacement priorities, and guide financial modeling and Capital Improvement Project planning. The project is currently in implementation, with go-live anticipated in mid-2012.

- Geographic Information System (GIS) enhancements. The first phase of the GIS enhancements project was completed in August 2009. This has included significant improvements to the field use of GIS and workforce mobility. The second phase focused on enhancing software licensing and making GIS more integral to customer outreach (through the District web site).

- Supervisory Control and Data Acquisition (SCADA) Master Plan. A separate Master Plan (sub-plan of the SITMP) for SCADA improvements was prepared and completed in 2010. This plan focuses on standardizing and modernizing the technology used to monitor and control the District's assets and supply services.

Phase 1 of the implementation has been completed; Phases 2 and 3 are in progress, with completion planned by early 2013.

- System Integration. Throughout the implementation of these systems, integration of data and work processes from one system to the next has been of primary importance, and numerous interfaces/integration points have been identified and built. This work is developed to maximize the value from the investment in the new systems, and to provide as much information as completely and accurately as possible.

- Security and Disaster Recovery. As the District relies on the systems in the SITMP more heavily on a routine basis, the ability to ensure that they are safe, secure, and available becomes increasingly important. As a result, the District has implemented numerous internal controls and technology processes to improve perimeter and internal security as well as implement several technologies (for example, server virtualization) to enhance the ability to provide these services in a secure, effective manner.

New Buildings

Operations Center Expansion Project – The expansion project was completed in 2010 and included a new 19,200 square foot operations building and a 13,000 square foot maintenance shop. The new facilities house the District's Emergency Operations Center, and are designed to accommodate a future staffing level of 100 employees. The project also included meeting room space for community groups, a traffic signal on El Sobrante Road at the entrance to the complex, and an on-site wastewater disposal system.

Western's new John E. Shipley Administration Building at the Operations Center

On July 2011, Riverside County's 9,405 square foot fire station was opened and became fully active within the complex and adjacent to Western's Operations Building. The fire station is designed to accommodate a staffing level of four in an around-the-clock operation and includes an adjacent 1,300 square foot meeting room.

Headquarters Building – In November 2010 Western staff moved into its new facilities, a 55,000 square foot building in the Meridian Business Park. In addition to being a Leadership in Energy and Environmental Design (LEED) interior-certified building, the facility has room for future growth, a business suite that the District is leasing out, and a training room and community room both specifically designed to host meetings for other agencies and community organizations.

Western's new headquarters in the Meridian Business Park, Riverside, CA

Financial Policies

The District has formally adopted the following financial policies:

Cash Reserve Policy

The policy states the purpose, source, and funding limits for each of its designated reserves. These reserves have been established to meet internal requirements and/or external legal requirements. These policy guidelines enable restricting funds for future infrastructure needs, replacement of aging facilities, bond reserves, and various operating reserves to mitigate unexpected occurrences. These reserves are critical to the District's financial strength and high bond rating.

Interest and Financial Risk Management Policy

The purpose of this policy is to establish guidelines for the use and management of all interest rate and risk management agreements incurred in connection with the expected issuance of new bonds, notes, and other obligations, or to accompany Bonds already issued, or to manage other risks of the District. This Policy sets forth the manner of execution of swaps, provides for security and payment provisions, risk considerations and certain other relevant provisions in the context of being responsive to the 2003 Recommended Practices of the Government Finance Officers Association (GFOA) regarding the contents of an interest rate swap and financial risk management policy.

Debt Management Policy

The District's debt and financial management policies are designed to establish parameters for issuing debt and provide guidance to decisions makers with respect to all options available to finance infrastructure and other capital projects so that the most prudent, equitable and cost effective method of financing can be chosen. The policy also documents the objectives to be achieved by staff both prior and subsequent to debt issuance. It promotes objectivity in the decision-making process and facilitates the financing process by establishing important policy decisions in advance.

Investment Policy

The investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District except those funds maintained in Deferred Compensation accounts for employees. All District monies including those not required for immediate expenditure are to be invested in compliance with governing provisions of law (California Government Code Sections 53600 et seq.). The policy lists in detail authorized investments as well as the percentage of portfolio limitations and required ratings for each investment type.

Accounting System

The Finance Department is responsible for providing financial services for the District, including financial accounting and reporting, accounts payable and receivable, purchasing, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District accounts for its activities as an enterprise fund and prepares its financial statements on the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. It is the intent of the Board of Directors to manage the District's operations as a business, thus matching revenues against the costs of providing the services.

Internal Controls

The District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded in accordance with District policies and procedures. When establishing and reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls for which its value adequately exceeds its costs. Recent audits have not noted any weaknesses in internal controls.

Budgetary Controls

Though the District is not legally required to adopt and adhere to a budget or present budgetary comparison information, the Board has chosen to approve an annual budget as a management tool. The budget is developed with input from the various departments of the District and adopted prior to the start of each fiscal year. Quarterly comparison reports of budget to actual are prepared and presented at a summary level to the Board along with explanations of significant variances.

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 Western Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the sixth year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR). 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 that our current CAFR 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.

We would like to express our appreciation to the Finance Department staff and the independent accounting firm of Rogers, Anderson, Malody & Scott, LLP for the efforts made to prepare this report. We would also like to thank the Board of Directors for their continued interest and support in all aspects of the District's financial management.

Respectfully submitted,

John V. Rossi
General Manager

Rod LeMond
Assistant General Manager /
Chief Financial Officer

.....

"It is the mission of Western Municipal Water District to provide water supply, wastewater disposal and water resource management to the public in a safe, reliable, environmentally sensitive, and financially responsible manner."

.....

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Western Municipal Water District of Riverside County, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

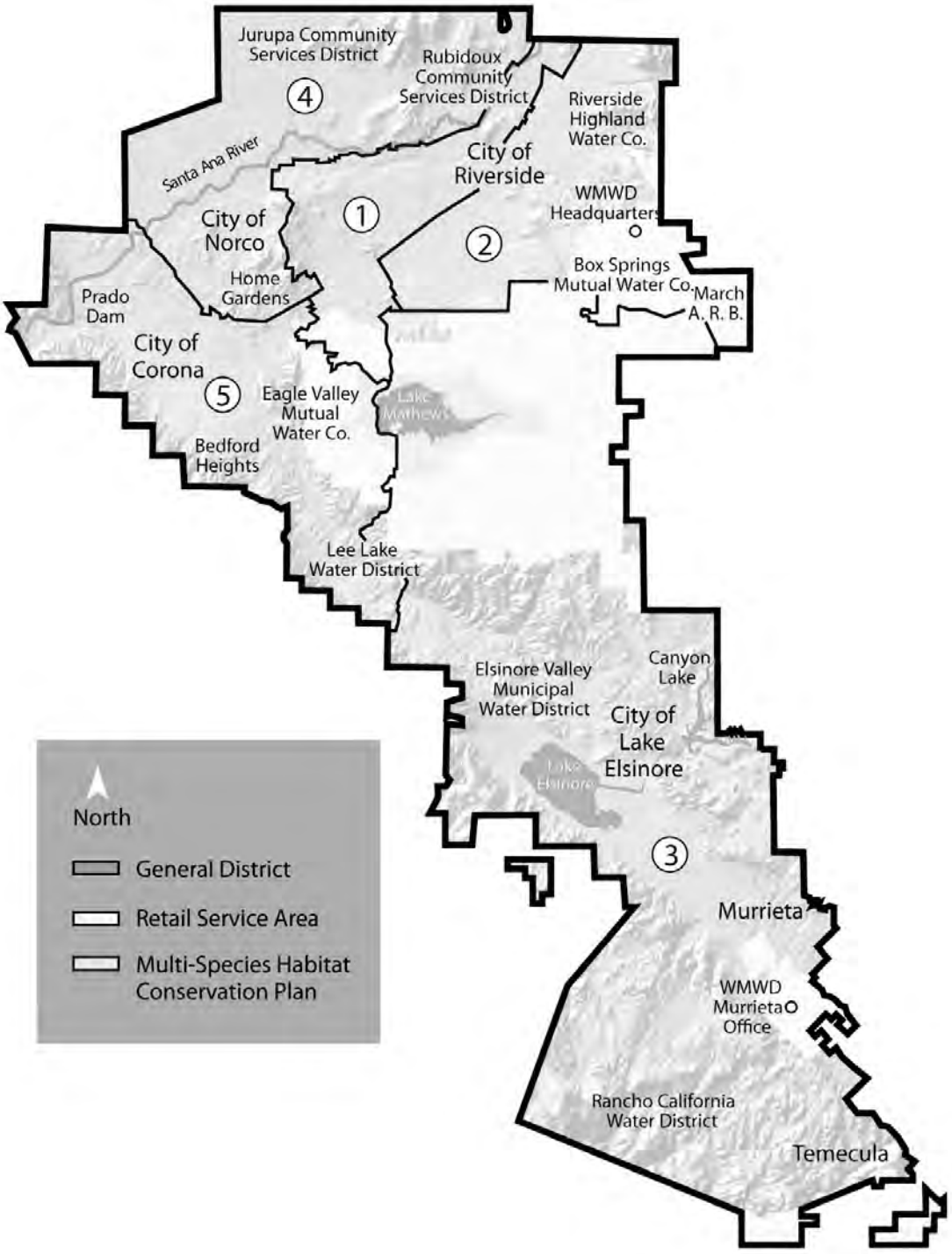
Linda C. Davidson

President

Executive Director

Western Municipal Water District

District Service Area Map



Western Municipal Water District

District Officials

At June 30, 2011

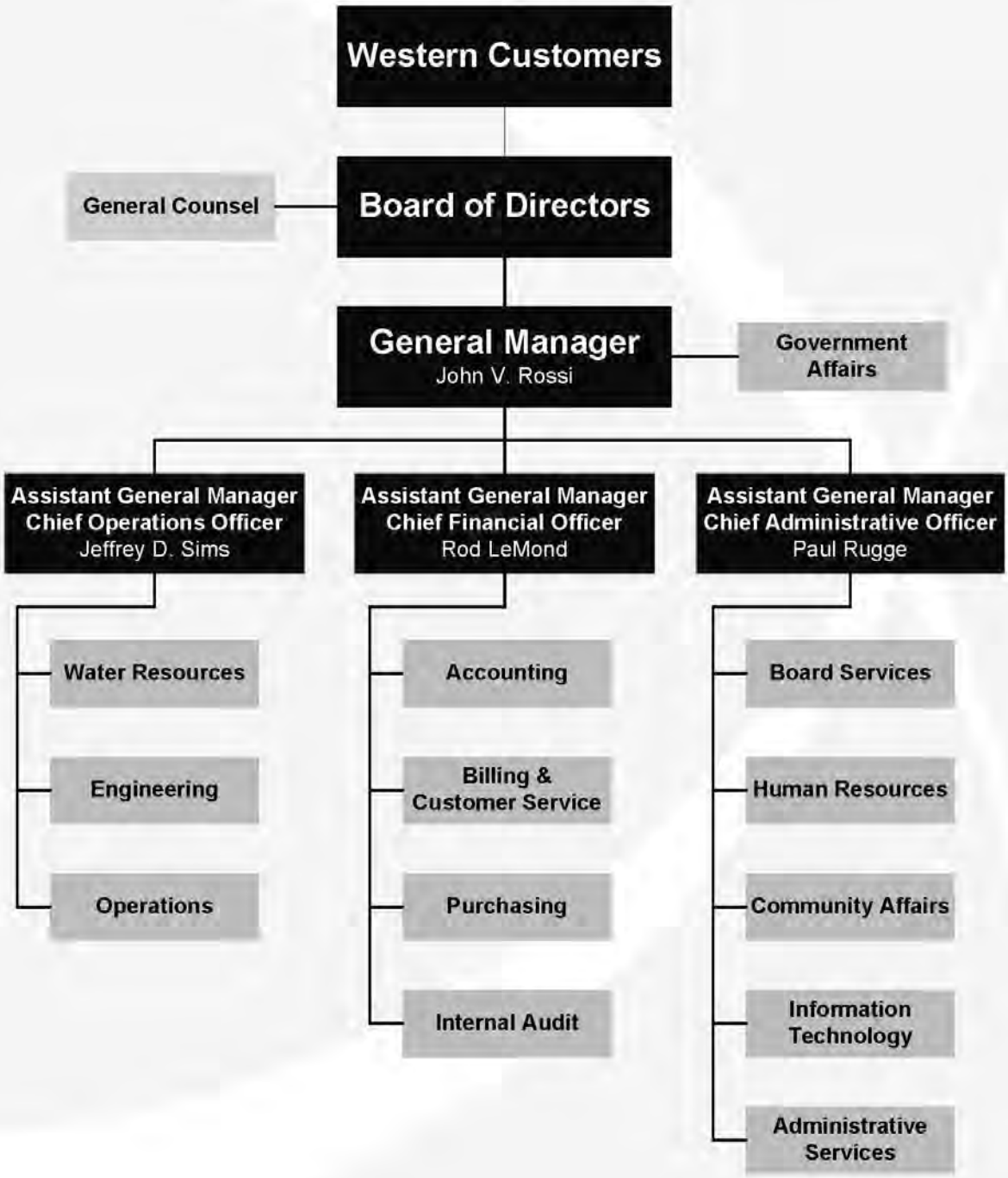
ELECTED BOARD OF DIRECTORS	Length of Service
Charles D. Field, Division 1	4 years
Thomas P. Evans, Division 2	4 years
Brenda Dennstedt, Division 3, President	4 years
Donald D. Galleano, Division 4, Vice President	6 years
S.R. "Al" Lopez, Division 5, Secretary-Treasurer	10 years

DISTRICT EVECUTIVE MANAGEMENT TEAM	
John V. Rossi, General Manager	7 years
Jeffrey D. Sims, Asst. General Manager, Chief Operations Officer	16 years
Rod LeMond, Asst. General Manager, Chief Financial Officer	2 years
Paul Rugge, Asst. General Manager, Chief Administrative Officer	6 years
Timothy T. Barr, Water Use Efficiency Manager	2 years
Joseph J. Bernosky, Director of Engineering	5 years
Lonnie Clabaugh, Director of Operations	27 years
Greg Duecker, Director of Administration	5 years
Kevin C. Mascaro, Controller	7 years
Thomas D. McMillen, Administrative Services Manager	5 years
Jack S. Safely, Director of Water Resources	5 years
Stephen T. Schultz, Deputy Director of Operations Manager	3 years

GENERAL COUNSEL	
Best, Best & Krieger, LLP	57 years

CONSULTING ENGINEER	
Albert A. Webb Associates	57 years

WESTERN MUNICIPAL WATER DISTRICT
ORGANIZATION CHART



FINANCIAL SECTION

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Phillip H. Waller, CPA (Retired)

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Megan Hackney, CPA
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Charles De Simoni, CPA

MEMBERS
American Institute of Certified Public Accountants
PCPS The AICPA Alliance for CPA Firms
Governmental Audit Quality Center
California Society of Certified Public Accountants

Board of Directors
Western Municipal Water District
Riverside, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Western Municipal Water District (District), as of and for the year ended June 30, 2011, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of June 30, 2010 were audited by other auditors whose report dated January 18, 2011, expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 26, 2012 on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Western Municipal Water District

Accounting principles generally accepted in the United States of America require that the M*anagement's Discussion and Analysis,* as listed in the table of contents, be presented to supplement the 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 reporting for placing the 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section and statistical tables have 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 them.

Rogers Anderson Malody & Scott, LLP

January 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended June 30, 2011 and 2010. We encourage readers to consider the information presented here in conjunction with the preceding Independent Auditor's Report, and the accompanying basic financial statements and notes to the financial statements.

Overview

The District

Western Municipal Water District of Riverside County was formed in 1954 under the Municipal Water District Act of 1911 for the purpose of bringing supplemental water from the Metropolitan Water District to growing Western Riverside County. The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary". The primary activities of the District include sale and delivery of potable and non-potable water to wholesale, domestic, agricultural and commercial accounts, as well as the collection, treatment and disposal of wastewater. The District also provides both operating and administrative contract services to other agencies within its 621 square mile service area.

Required Financial Statements

The financial statements of the District report information utilizing the full accrual basis of accounting and conform to accounting principles that are generally accepted in the United States of America. The financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data on the District's financial condition and operating results. They are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The *Statement of Net Assets* presents information on the District's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligation to District creditors (liabilities) with the difference between the two being reported as Net Assets. Over time, increases and decreases in Net Assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one must consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

The *Statement of Revenues, Expenses and Changes in Net Assets* identifies the District's revenues and expenses for the fiscal year. It provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its projected costs through user fees, tax revenues and other service related charges.

The *Statement of Cash Flows* presents information regarding the District's cash receipts and cash payments for the period categorized according to whether they stem from operating activities, non-capital financing activities, capital and related financing activities or investing activities. From this statement the reader can obtain comparative information on the sources and uses of the District's cash.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements.

The District's statement of net assets remains strong providing a foundation for continued growth within the District's service area. Historically, the District experiences a loss at the operating level, meaning operating revenues are less than operating expenses. In the past, this loss has been offset by net non-operating revenues, primarily from property tax revenue and investment earnings. However, in fiscal years 2011 and 2010, net non-operating revenues were not sufficient to cover net operating losses. Explanations for this are provided in the discussion that follows.

Statements of Net Assets

The following tables compare the various categories of assets, liabilities, and net assets for each of the consecutive fiscal years:

Condensed Statements of Net Assets as of June 30, 2011 and 2010

	As of June 30,		Increase (Decrease)	
	2011	2010	$ Change	% Change
Assets				
Current	$ 106,117,081	$ 99,795,706	$ 6,321,375	6.3%
Noncurrent:				
Capital	354,299,825	333,455,713	20,844,112	6.3%
Other	78,353,543	58,852,905	19,500,638	33.1%
Total Assets	$ 538,770,449	$ 492,104,324	$ 46,666,125	9.5%
Liabilities				
Current	$ 32,379,043	$ 33,644,306	$ (1,265,263)	-3.8%
Noncurrent	158,416,052	110,399,514	48,016,538	43.5%
Total Liabilities	$ 190,795,095	$ 144,043,820	$ 46,751,275	32.5%
Net Assets				
Invested in capital assets, net of related debt	$ 235,918,546	$ 240,276,365	$ (4,357,819)	-1.8%
Restricted for debt service	144,619	144,619	0	0.0%
Restricted for capacity charges	26,151,035	29,118,573	(2,967,538)	-10.2%
Unrestricted	85,761,154	78,520,947	7,240,207	9.2%
Total Net Assets	$ 347,975,354	$ 348,060,504	$ (85,150)	-0.02%

Continued on next page

Condensed Statements of Net Assets as of June 30, 2010 and 2009

	As of June 30,		Increase (Decrease)	
	2010	2009	$ Change	% Change
Assets				
Current	$ 99,795,706	$ 98,620,917	$ 1,174,789	1.2%
Noncurrent:				
Capital	333,455,713	274,951,430	58,504,283	21.3%
Other	58,852,905	80,948,582	(22,095,677)	-27.3%
Total Assets	$ 492,104,324	$ 454,520,929	$ 37,583,395	8.3%
Liabilities				
Current	$ 33,644,306	$ 29,096,377	$ 4,547,929	15.6%
Noncurrent	110,399,514	100,669,181	9,730,333	9.7%
Total Liabilities	$ 144,043,820	$ 129,765,558	$ 14,278,262	11.0%
Net Assets				
Invested in capital assets, net of related debt	$ 240,276,365	$ 213,090,314	$ 27,186,051	12.8%
Restricted for debt service	144,619	144,619	-	0.0%
Restricted for capacity charges	29,118,573	28,974,102	144,471	0.5%
Unrestricted	78,520,947	82,546,336	(4,025,389)	-4.9%
Total Net Assets	$ 348,060,504	$ 324,755,371	$ 23,305,133	7.2%

Assets

During the fiscal year ended June 30, 2011, total assets increased by $46.6 million, or 9.5%. This increase was due to several factors including a $20.8 million, or 6.3%, net increase in capital assets. The increase in capital assets resulted primarily from contributed capital assets from developers ($4.0 million), construction expenditures related to the Western Water Recycling Facility expansion, second phase ($10.7 million), new Headquarters Building ($4.5 million), Chino Basin Desalter Expansion, second phase ($2.9 million), new Operations Center ($1.6 million), River Road bridge pipelines ($1.1 million), various other capital projects ($6.4 million), less depreciation ($9.8 million), less other reductions, net ($0.8 million). Additional information regarding capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Other reasons for the increase in total assets during fiscal year 2011 include a $45.7 million increase in investments as a result of the 2010 Bond issuance, discussed below in the Liabilities section, offset by a $4 million net decrease in receivables. Additionally, there was a decrease in deferred outflow related to the 2009A bond swap agreement in the amount of $1.1 million. The decrease in deferred outflow was related to the increase in the fair market value of the swap at June 30, 2011.

During the fiscal year ended June 30, 2010, total assets increased by $37.6 million, or 8.3%. This increase was due to several factors including a $58.5 million, or 21.3%, net increase in capital assets. The increase in capital assets resulted primarily from contributed capital assets from developers ($15.2 million), construction expenditures related to the Western Water Recycling Facility expansion second phase ($21.3 million), new Operations Center ($10.6 million), new Headquarters Building ($11.1 million), Chino Basin Desalter Expansion, second phase ($1.7 million), Enterprise Resource Planning software system ($1.5 million), Hayes Avenue Pipeline ($1 million), various other capital projects ($6.7 million), less depreciation ($7.8 million), less other reductions, net ($2.8 million). Additional information regarding capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Other reasons for the net increase in total assets during fiscal year 2010 include a $1.5 million net increase in receivables, offset by a $0.2 million net decrease in cash and investments and a $0.2 million decrease in inventory and other current assets. In addition, there was a decrease in other non-current assets of $22.1 million which partially offsets the increases in current and capital assets. This decrease was primarily due to the decrease in restricted cash and cash equivalents of $27.5 million. The majority of the decrease represents cash in the Construction Fund from 2009B Bonds proceeds in fiscal year 2009 that were used in fiscal year 2010 for construction of certain capital projects. Additionally, there was a $1.0 million decrease in prepaid assets and notes receivable, offset by a net increase in assessments receivable of $1.9 million and increase in deferred outflow related to the 2009A bond swap agreement in the amount of $2.1 million. The increase in assessments receivable was mainly attributable to a $2.0 million sewer conveyance reimbursement from certain developers. The increase in deferred outflow was related to the decrease in the fair market value of the swap at June 30, 2010.

Liabilities

During the year ended June 30, 2011, total liabilities increased by $46.8 million, or 32.5%. This change was primarily due to $52.3 million in new bonds that were issued during the year. The 2010A and 2010B Bonds were issued to generate funds to finance the acquisition and construction of major water and wastewater facilities. Information on the District's long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

During the year ended June 30, 2010, total liabilities increased by $14.3 million, or 11.0%. This change was primarily due to the District executing a new note payable in the amount of $11.0 million to fund the purchase and build-out of the District's new headquarters building. In addition, accounts payable increased by $3.5 million, and the swap liability increased by $2.1 million due to changes in its fair value. The increases were offset by a decrease in bonds payable due to the pay down of required annual debt service payments. Information on the District's long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Net Assets

Net Assets is the difference between the District's assets and liabilities. Net assets decreased during fiscal year 2011 by $85,000, or 0.02%, which resulted primarily from reductions in property taxes, investment earnings, and developer contributions. Net assets are classified into four categories: 1) Invested in Capital Assets, Net of Related Debt, 2) Restricted for Debt Service, 3) Restricted for Capacity Charges, and 4) Unrestricted. During fiscal year 2010, net assets increased by $23.3 million, or 7.2%.

Invested in Capital Assets, Net of Related Debt – The amount invested in capital assets, net of related debt, is the carrying value of capital assets less accumulated depreciation and less any liability related to the capital assets. The amount as of June 30, 2011 and 2010 were $235.9 million and $240.3 million, respectively. The $4.4 million or 1.8% decrease and $27.2 million or 12.8% increase, in fiscal years 2011 and 2010, respectively, are detailed in the next two tables.

Continued on next page

Invested in Capital Assets, Net of Related Debt as of June 30, 2011 and 2010

	As of June 30,		Increase (Decrease)	
	2011	2010	$ Change	% Change
Plant, building and improvements	$ 302,396,693	$ 267,656,096	$ 34,740,597	13.0%
Intangible plant	34,106,219	23,385,735	10,720,484	45.8%
Construction in progress	81,799,092	96,293,268	(14,494,176)	-15.1%
Land and land improvements	10,757,900	7,945,523	2,812,377	35.4%
Equipment and vehicles	12,564,819	16,268,836	(3,704,017)	-22.8%
Total Capital Assets	$ 441,624,723	$ 411,549,458	$ 30,075,265	7.3%
Less Accumulated Depreciation	(87,324,898)	(78,093,745)	(9,231,153)	11.8%
Capital Assets, Net	$ 354,299,825	$ 333,455,713	$ 20,844,112	6.3%
Less Related Debt:				
SAWPA brineline capacity use obligation	173,810	339,342	(165,532)	-48.8%
WRCRWA State Water Resources Control Board	212,365	239,494	(27,129)	-11.3%
Assessment District 90-1	568,833	662,201	(93,368)	-14.1%
2009 Series A bonds	30,254,763	30,820,627	(565,864)	-1.8%
2009 Series B bonds	49,906,098	50,497,450	(591,352)	-1.2%
2010 Series B bonds	27,337,727	-	27,337,727	
Note on Archer land	45,867	67,176	(21,309)	-31.7%
Note on Headquarters Building	9,623,903	10,553,058	(929,155)	-8.8%
Note on CWMS	257,913	-	257,913	
Invested in Capital Assets, Net of Related Debt	$ 235,918,546	$ 240,276,365	$ (4,357,819)	-1.8%

Continued on next page

Invested in Capital Assets, Net of Related Debt as of June 30, 2010 and 2009

	As of June 30,		Increase (Decrease)	
	2010	2009	$ Change	% Change
Plant, building and improvements	$ 267,656,096	$ 251,114,506	$ 16,541,590	6.6%
Intangible plant	23,385,735	33,452,428	(10,066,693)	-30.1%
Construction in progress	96,293,268	49,054,199	47,239,069	96.3%
Land and land improvements	7,945,523	7,569,646	375,877	5.0%
Equipment and vehicles	16,268,836	6,122,149	10,146,687	165.7%
Total Capital Assets	$ 411,549,458	$ 347,312,928	$ 64,236,530	18.5%
Less Accumulated Depreciation	(78,093,745)	(72,361,498)	(5,732,247)	7.9%
Capital Assets, Net	$ 333,455,713	$ 274,951,430	$ 58,504,283	21.3%
Less Related Debt:				
SAWPA brineline capacity use obligation	339,342	496,993	(157,651)	-31.7%
WRCRWA State Water Resources Control Board	239,494	265,884	(26,390)	-9.9%
Assessment District 90-1	662,201	745,569	(83,368)	-11.2%
2009 Series A bonds	30,820,627	31,533,903	(713,276)	-2.3%
2009 Series B bonds [(a)]	50,497,450	28,731,297	21,766,153	75.8%
Note on Archer land	67,176	87,470	(20,294)	-23.2%
Note on Headquarters Building	10,553,058	-	10,553,058	
Invested in Capital Assets, Net of Related Debt	$ 240,276,365	$ 213,090,314	$ 27,186,051	12.8%

(a) Increase represents the portion of bond proceeds that were spent for capital purposes during fiscal year 2010.

Restricted for Debt Service – At June 30, 2011 and 2010, the amount restricted for debt service was $144,619 for both years, and equals the reserve requirement for Assessment District 90-1 Bonds. Additional information related to the debt and all other District long-term debts can be found in Note 7 of the Notes to the Basic Financial Statements.

Restricted for Capacity Charges – The $26.2 million and $29.1 million at June 30, 2011 and 2010, respectively, reflect Added Facilities Charges and Distribution System Fees received from land owners and developers for the future expansion of water distribution and wastewater treatment and conveyance systems. An equivalent amount is reported in the Assets section of the Statement of Net Assets as part of the Restricted Investments line item (classified as "Capacity Charges" in Note 3 of the Notes to the Basic Financial Statements). A restricted asset is an asset for which constraints have been placed on the asset's use by creditors, contributors, laws or regulations of other governments, or a consequence of a restriction established by the District at the time a particular fee, charge, levy, or assessment was approved (as is the case with these Capacity Charges). Additional information related to these restricted cash and investments can be found in Note 3 of the Notes to the Basic Financial Statements.

Unrestricted – The unrestricted amount is the portion of Net Assets that the District is not legally bound either through legislation or contractual agreement to restrict for a particular purpose. The total amount of legally unrestricted funds at June 30, 2011 and 2010 were $85.8 million and $78.5 million, respectively. Although these funds are not legally restricted, the Board of Directors of the District has designated these funds for various construction projects, system improvements and operations.

Changes in Net Assets

The following tables compare the various categories of revenues, expenses, and changes in net assets for each of the consecutive fiscal years.

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2011 and 2010

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2011	2010	$ Change	% Change
Operating Revenue	$ 79,471,048	$ 79,126,995	$ 344,053	0.4%
Operating Expenses	(100,249,983)	(100,280,997)	31,014	0.0%
Net Non-operating Revenue	14,874,129	17,635,069	(2,760,940)	-15.7%
Changes in Net Assets Before Capital Contributions	(5,904,806)	(3,518,933)	(2,385,873)	67.8%
Capital Contributions	5,819,656	26,824,066	(21,004,410)	-78.3%
Change in Net Assets	(85,150)	23,305,133	(23,390,283)	-100.4%
Net Assets, July 1	348,060,504	324,755,371	23,305,133	7.2%
Net Assets, June 30	$ 347,975,354	$ 348,060,504	$ (85,150)	-0.02%

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2010 and 2009

	Fiscal Years Ended June 30,		Increase (Decrease)	
	2010	2009	$ Change	% Change
Operating Revenue	$ 79,126,995	$ 75,480,412	$ 3,646,583	4.8%
Operating Expenses	(100,280,997)	(97,167,792)	(3,113,205)	3.2%
Net Non-operating Revenue	17,635,069	21,652,217	(4,017,148)	-18.6%
Changes in Net Assets Before Capital Contributions	(3,518,933)	(35,163)	(3,483,770)	9907.5%
Capital Contributions	26,824,066	14,293,816	12,530,250	87.7%
Change in Net Assets	23,305,133	14,258,653	9,046,480	63.4%
Net Assets, July 1	324,755,371	310,496,718	14,258,653	4.6%
Net Assets, June 30	$ 348,060,504	$ 324,755,371	$ 23,305,133	7.2%

Combined Revenue

Combined revenue (excluding capital contributions) for fiscal year 2011 totaled $100.4 million, a decrease of $4.2 million or 4.0%. The most significant variances from fiscal year 2011 to 2010 are in four revenue categories: investment earnings ($3 million decrease), other revenue ($2.4 million decrease), water service ($1.3 million increase) and property taxes ($1.2 million decrease).

Investment Earnings – The $3.8 million in investment earnings is comprised of $395,000 in interest on loans to other government agencies, $3.5 million on investments, $119,000 in interest on bond proceeds, and an unrealized net loss on investments of $0.9 million, offset by $0.7 million in realized net gain on investments. Realized gains

are recorded when investments are sold prior to their maturity date for an amount greater than what the District paid for the investment. Realized gains occurred for two reasons: (1) Debt security investments were sold prior to maturity date in order to generate cash needed to pay for capital projects (infrastructure). Doing this in an interest rate environment that offers similar debt securities at a lower rate than what the District's debt securities bear results in realized gain. A realized gain occurs because the District has to sell the debt security at a price that is greater than what the debt security was purchased for. The selling price is greater than the purchase price because investors are willing to pay what the District paid for the debt security when there are other new debt securities that bear a lower interest rate yet have the same level of risk as the debt security the District is selling. (2) With similar effects as the reason above, debt securities are also sold to "rebalance" the investment portfolio. Rebalancing involves selling one debt security in order to purchase another debt security with a different maturity date and a higher interest rate. This is done deliberately when the long-term benefit of higher interest earnings on the new debt security is greater than the realized loss that occurs when selling the old debt security.

Unrealized gains and losses are different than realized gains and losses in that they are accounting for "paper" entries made in order to report investments at their fair market value rather than their purchase price. This is a requirement of GAAP. When a debt security has a fixed interest rate that is lower than the current market rates, the debt security decreases in market value (loses value). This is because newer debt securities that have a similar level of risk are being offered at a higher rate of interest than the old debt security. This decrease in market value is reported as an unrealized loss (or "paper loss"). If the debt security is sold prior to its maturity date, the loss would become "realized". When the debt security reaches its maturity date, the unrealized loss associated with the matured debt security is reversed in the financial statements.

The decrease in investment earnings was primarily due to a change in unrealized gains and losses on investments. In 2010 the District experienced unrealized gains of $2.3 million, whereas in 2011, the District experienced unrealized losses of $0.9 million. The District experienced an increase of $265,000 in interest income on investments, including realized net gains on investments of $0.7 million. This is a net decrease of $3 million.

Other Revenues - The $2.4 million decrease in other revenues was primarily due to Metropolitan Water District no longer offering rebate programs for conservation ($1.3 million decrease). The District also received a one-time gain on a settlement during fiscal year 2010 related to a class action lawsuit over defective valves sold to water agencies ($0.7 million decrease). In fiscal year 2011, the 20-year local resource program related to the Arlington Desalter expired ($0.6 million). Decreases in other revenues were also offset by various increases in other revenues ($200,000).

Water Service - The $1.3 million increase in water service was mainly due to rate increases assessed by the District on its retail customers, which became effective in September 2010 and January 2011.

Property Taxes - Property tax revenue in fiscal year 2011 reflected the decreasing property values within the District's service area resulting from the downturn in the housing market. The county assessed valuation led to a decrease in property tax revenue of $1.2 million.

Combined revenue (excluding capital contributions) for fiscal year 2010 totaled $104.5 million, an increase of $3.7 million, or 3.7%. The most significant variances from fiscal year 2009 to 2010 are in four revenue categories: wastewater disposal ($2.6 million increase), property taxes ($1.6 million decrease), water service ($1.4 million increase) and other revenues ($0.7 million increase).

Wastewater Disposal - Wastewater disposal revenues increased from fiscal year 2009 to 2010 by $2.6 million, or 31.4%. This increase was attributable to: (1) a $1.3 million increase due to higher surcharges resulting from greater than average strength of industrial wastewater discharge. These discharges are assessed upon the District and then passed through to the District's industrial customers; this particular increase in revenue was consequently offset by corresponding charges from the Santa Ana Watershed Project Authority (SAWPA) to Western reflected in the waste disposal charges expense category; and (2) a $0.8 million increase in retail wastewater charges due to a 6% to 9% increase that went into effect July 1, 2009, and 3) a $0.5 million increase

related to the Santa Ana Regional Interceptor (SARI) line fixed charges and excess quantity penalties, which resulted from rate increases of 5% and 23%, respectively.

Property Taxes - Property tax revenue from fiscal year 2009 to 2010 reflected a decrease in property values within the District's service area resulting from the downturn in the housing market. The county assessed valuation led to a decrease in property tax revenue of $1.6 million.

Water Service - The $1.4 million increase from fiscal year 2009 to 2010 in water service was mainly due to a 21% increase in the monthly fixed system charge assessed by the District on its retail customers, which became effective in May 2009.

Other Revenues - The $0.7 million increase from fiscal year 2009 to 2010 in other revenues was primarily due to a $0.6 million one-time gain on a settlement received during the fiscal year related to a class action lawsuit over defective valves sold to water agencies.

Contractual Services

In addition to providing water and wastewater services, the District provides operations and administrative services to developers and several neighboring agencies. Revenue from these services decreased by about $0.7 million, or 31.9%, in fiscal year 2011 compared with 2010 due to the decrease in contractual services rendered to SAWPA from the District for maintenance of the Brine Line, in addition to the decrease in contractual services rendered to developers. In fiscal year 2010, revenue from these services decreased by about $229,000, or 9.1%, compared with 2009 mostly due to the decrease in contractual services rendered to developers which can be directly associated with the slowdown in the real estate market. The amount charged to the agencies and developers for contractual services reflects actual costs, time and materials, as well as an overhead charge. Therefore, an amount similar to the revenue is recorded as contractual services expense in the financial statements.

Capital Contributions

During fiscal year 2011, the District experienced a decrease of $21.0 million, or 78.3%, in capital contributions. Capital contributions include water and sewer connection fees (capacity charges) and contributed assets from developers and grant proceeds. The variance was primarily due to a reduction of developer capital contributions. The District received $15.2 million less developer capital contributions during fiscal year 2011 compared with 2010. Being dependent on the completion of property developments within the District's retail service area, these amounts have fluctuated over the past several years as a result of the slow growth in the District's service area. Additionally, capacity charges decreased by $5.9 million in fiscal year 2011, reflecting the downturn in development as a result of the economy.

During fiscal year 2010, the District experienced an increase of $12.5 million, or 87.7%, in capital contributions. The variance was primarily due to the District receiving $6.7 million in additional developer capital contributions compared with fiscal year 2009.

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The following tables present a comparison of revenues by category for each of the consecutive fiscal years:

Revenues by Category for the Fiscal Years Ended June 30, 2011 and 2010

Revenue Category	Fiscal Years Ended June 30, 2011	2010	Increase (Decrease) $ Change	% Change
Water sales	$ 56,473,710	$ 56,223,768	$ 249,942	0.4%
Water service	10,477,058	9,127,539	1,349,519	14.8%
Wastewater disposal	10,862,351	10,723,639	138,712	1.3%
Contractual services	1,569,409	2,303,612	(734,203)	-31.9%
Property taxes	15,106,222	16,262,545	(1,156,323)	-7.1%
Investment earnings	3,802,288	6,826,692	(3,024,404)	-44.3%
Capacity rights sales	997,710	163,118	834,592	511.6%
Intergovernmental revenue	621,505	-	621,505	
Other	475,067	2,910,470	(2,435,403)	-83.7%
Total Revenues	$ 100,385,320	$ 104,541,383	$ (4,156,063)	-4.0%
Capital Contributions	5,819,656	26,824,066	(21,004,410)	-78.3%
Total Revenues and Capital Contributions	$ 106,204,976	$ 131,365,449	$ (25,160,473)	-19.2%

Revenues by Category for the Fiscal Years Ended June 30, 2010 and 2009

Revenue Category	Fiscal Years Ended June 30, 2010	2009	Increase (Decrease) $ Change	% Change
Water sales	$ 56,223,768	$ 55,667,804	$ 555,964	1.0%
Water service	9,127,539	7,776,582	1,350,957	17.4%
Wastewater disposal	10,723,639	8,161,485	2,562,154	31.4%
Contractual services	2,303,612	2,532,882	(229,270)	-9.1%
Property taxes	16,262,545	17,853,043	(1,590,498)	-8.9%
Investment earnings	6,826,692	6,378,492	448,200	7.0%
Capacity rights sales	163,118	280,376	(117,258)	-41.8%
Other	2,910,470	2,190,864	719,606	32.8%
Total Revenues	$ 104,541,383	$ 100,841,528	$ 3,699,855	3.7%
Capital Contributions	26,824,066	14,293,816	12,530,250	87.7%
Total Revenues and Capital Contributions	$ 131,365,449	$ 115,135,344	$ 16,230,105	14.1%

Expenses

Expenses for the fiscal year ended June 30, 2011 totaled $106.3 million, a decrease of $1.8 million, or 1.6%. The most significant variances were in the following three expense categories: depreciation and amortization ($1.9 million increase), special studies and projects ($1.4 million decrease), and interest expense ($1.3 million decrease).

Depreciation and Amortization - The increase in depreciation and amortization resulted from an increase of $2.0 million related to additions to depreciable capital assets and a decrease in amortization expense of $110,000 related to the amortization of the net premium on the new 2010 Bonds. Information on the District's capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Special Studies and Projects – The decrease in special studies and projects of $1.4 million resulted from the District's ongoing effort to reduce operating expenses through, for example, the deferral of items normally expensed in this category.

Interest Expense – The decrease in interest expense of $1.3 million resulted primarily from: 1) the District recording capitalized interest costs on construction in progress of $3.1 million which is a reduction to interest expense, 2) the issuance of the Series 2010 Bonds, as discussed below in the long-term liabilities section, resulted in greater interest costs of $2.1 million, and 3) the District implemented GASB 59 and recorded interest costs on taxable Build America Bonds gross of federal reimbursement in the amount of $622,000. Information on the District's long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Expenses for the fiscal year 2010 totaled $108.1 million, an increase of $7.2 million, or 7.1%. The most significant increases were in the following four expense categories: interest expense ($2.6 million increase), other expenses ($1.9 million increase), depreciation and amortization ($1.4 million increase), and source of supply ($1.0 million increase).

Interest Expense - The increase in interest expense from fiscal year 2009 to 2010 resulted from the added interest associated with the 2009A and 2009B Bonds issued in May of 2009. Information on the District's long-term debt activity can be found in Note 7 of the Notes to the Basic Financial Statements.

Other Expenses - The increase in other expenses from fiscal year 2009 to 2010 resulted mainly from the $1.6 million increase in capital contribution expense related to the Chino II Desalter Expansion.

Depreciation and Amortization - The increase in depreciation and amortization from fiscal year 2009 to 2010 resulted from a combination of the following factors: 1) a $0.5 million increase in amortization expense related to the amortization of the deferred loss on refunding the 2002 Series A Bonds in May 2009, 2) a $0.3 million increase in depreciation expense related to certain capital assets that were previously determined to possess an indefinite useful life but were consequently determined to have a definite useful life upon implementation of GASB 51, and 3) a $0.6 million increase related to additions to depreciable capital assets.

Source of Supply - The primary reason for the increase in the source of supply expense category from fiscal year 2009 to 2010 is a one-time $0.6 million charge resulting from an internal change in the accounting methodology used by the District to allocate MWD's Readiness-to-Serve (RTS) charge shared by the District with its wholesale customers.

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The following tables present a comparison of expenses by category for each of the consecutive fiscal years:

Expenses by Category for the Fiscal Years Ended June 30, 2011 and 2010

Expense Category	Fiscal Years Ended June 30, 2011	2010	Increase (Decrease) $ Change	% Change
Source of supply	$ 2,249,030	$ 2,384,027	$ (134,997)	-5.7%
Purchased water	51,890,617	51,859,715	30,902	0.1%
Pumping - booster pumps	3,853,402	3,495,685	357,717	10.2%
Water treatment	2,048,534	1,343,418	705,116	52.5%
Transmission and distribution	6,234,543	6,533,961	(299,418)	-4.6%
Administrative and general	11,456,106	10,714,044	742,062	6.9%
Contractual services	1,528,335	2,745,281	(1,216,946)	-44.3%
Special studies and projects	894,954	2,273,136	(1,378,182)	-60.6%
Wastewater disposal	9,086,468	9,018,894	67,574	0.7%
Depreciation and amortization	10,262,842	8,410,181	1,852,661	22.0%
Interest expense	3,422,262	4,700,144	(1,277,882)	-27.2%
Other	3,363,033	4,581,830	(1,218,797)	-26.6%
Total Expenses	$ 106,290,126	$ 108,060,316	$ (1,770,190)	-1.6%

Expenses by Category for the Fiscal Years Ended June 30, 2010 and 2009

Expense Category	Fiscal Years Ended June 30, 2010	2009	Increase (Decrease) $ Change	% Change
Source of supply	$ 2,384,027	$ 1,389,221	$ 994,806	71.6%
Purchased water	51,859,715	51,655,168	204,547	0.4%
Pumping - booster pumps	3,495,685	3,727,019	(231,334)	-6.2%
Water treatment	1,343,418	1,285,990	57,428	4.5%
Transmission and distribution	6,533,961	5,611,231	922,730	16.4%
Administrative and general	10,714,044	11,328,694	(614,650)	-5.4%
Contractual services	2,745,281	2,742,866	2,415	0.1%
Special studies and projects	2,273,136	3,234,275	(961,139)	-29.7%
Wastewater disposal	9,018,894	8,074,817	944,077	11.7%
Depreciation and amortization	8,410,181	7,035,161	1,375,020	19.5%
Interest expense	4,700,144	2,145,356	2,554,788	119.1%
Other	4,581,830	2,646,893	1,934,937	73.1%
Total Expenses	$ 108,060,316	$ 100,876,691	$ 7,183,625	7.1%

Capital Assets

The District's investment in capital assets as of June 30, 2011 and 2010 were $354.3 million and $333.5 million, respectively (net of accumulated depreciation). This includes investment in buildings, building improvements, capacity rights, land, land improvements, equipment, vehicles, as well as plant assets such as source of supply, pumping plant, water treatment plant, transmission and distribution plant, wastewater plant, etc.

The following table summarizes the District's capital assets, net of accumulated depreciation at June 30:

Capital Assets, net of Accumulated Depreciation as of June 30

	2011	2010	2009
Plant, buildings and improvements	$ 302,396,693	$ 267,656,096	$ 251,114,506
Capacity rights	34,106,219	23,385,735	33,452,428
Construction in progress	81,799,092	96,293,268	49,054,199
Land and land improvements	10,757,900	7,945,523	7,569,646
Equipment and vehicles	12,564,819	16,268,836	6,122,149
Total Capital Assets	$ 441,624,723	$ 411,549,458	$ 347,312,928
Less Accumulated Depreciation	(87,324,898)	(78,093,745)	(72,361,498)
Total Capital Assets, Net of Accumulated Depreciation	$ 354,299,825	$ 333,455,713	$ 274,951,430

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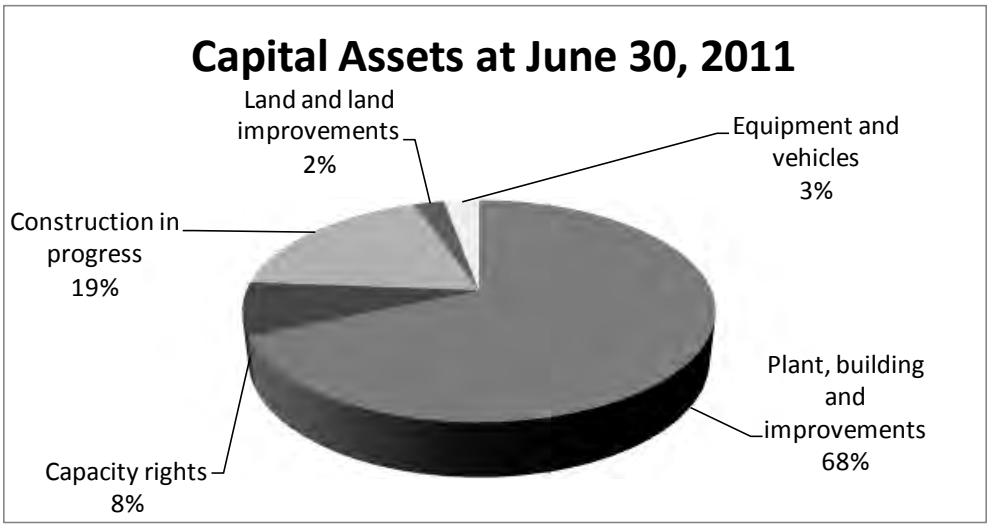
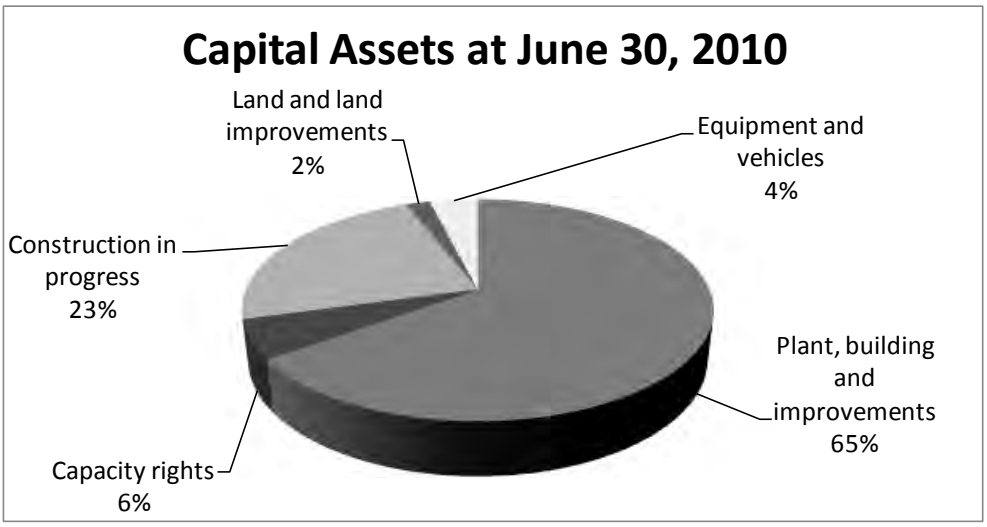
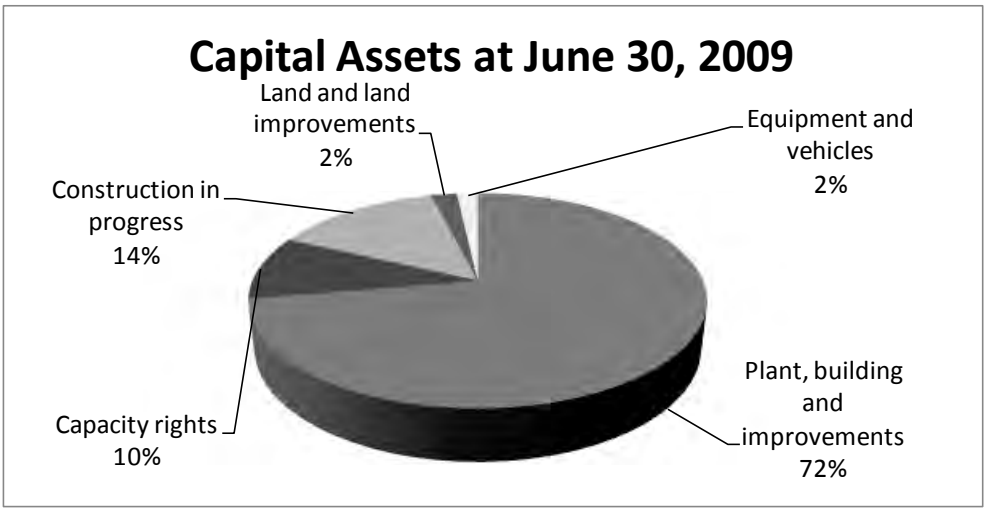

Capital Assets at June 30, 2011
Land and land improvements 2%
Equipment and vehicles 3%
Construction in progress 19%
Plant, building and improvements 68%
Capacity rights 8%


Capital Assets at June 30, 2010
Land and land improvements 2%
Equipment and vehicles 4%
Construction in progress 23%
Plant, building and improvements 65%
Capacity rights 6%


Capital Assets at June 30, 2009
Land and land improvements 2%
Equipment and vehicles 2%
Construction in progress 14%
Plant, building and improvements 72%
Capacity rights 10%

Long-Term Liabilities

As of June 30, 2011 and 2010, the District has outstanding long-term liabilities of $163.6 million and $115.2 million, respectively. The increase in long-term liabilities is due to the issuance of $52.3 million in new bonds that were issued during the year. The 2010A and 2010B Bonds were issued to generate funds for major capital projects, as discussed above in the Liabilities section.

The District's outstanding long-term liabilities as of June 30 are as follows:

	2011	2010	2009
SWAP liability	$ 2,802,559	$ 3,931,920	$ 1,789,506
Compensated absences	1,899,668	1,715,353	1,630,836
Due to other local government agencies	3,828,009	4,369,885	4,888,414
Bonds payable			
Improvement bonds	575,000	670,000	755,000
Unamortized bond discount	(6,167)	(7,799)	(9,431)
Revenue Bonds	149,475,000	100,160,000	102,340,000
Unamortized discount	(836,740)	(616,359)	(647,259)
Unamortized premium	1,149,658	-	-
Deferred loss on refunding	(5,182,540)	(5,603,229)	(6,198,805)
Note payable	9,927,683	10,620,234	87,470
Total Long-term Liabilities	163,632,130	115,240,005	104,635,731
Less current portion	(5,216,078)	(4,840,491)	(3,966,550)
Total Long-term Liabilities, net of current portion	$ 158,416,052	$ 110,399,514	$ 100,669,181

Economic Factors and Next Year's Budgets and Rates

Slow growth in the District's service area is not expected to change for the next 5-7 years, but is expected to eventually recover and grow at a moderate pace. This growth will further create demand for water supply and additional capital facilities. These demands have been anticipated in the District's facility master plans with new supply demands being met through imported water, interties with neighboring agencies, desalted water, maximizing reclaimed water, and conservation. The District's 2012 fiscal year budget includes $27.8 million in capital projects. In order to accommodate rising costs for purchased water, power, labor and maintenance, the District's Board of Directors in 2010 approved a "Water Reliability Charge" for the Riverside Service Area retail customers that automatically increases each January 1st by $0.07 per hundred cubic feet (HCF) through January 1, 2015. The Water Reliability Charge is a proactive approach to increasing system reliability and responsible water supply management. This charge will reduce the District's dependence on property tax revenue, with generated revenue dedicated to funding projects related to increasing water system capacity and improving the long-term sustainability of the water supply. A revenue neutral water budget rate structure for Riverside and Murrieta retail treated customers went into effect on October 1, 2011. A wastewater rate increase of approximately 9% went into effect on November 1, 2011.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Western Municipal Water District of Riverside County's finances for the Board of Directors, customers, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 14205 Meridian Parkway, Riverside, CA 92518.

Western Municipal Water District
Statements of Net Assets
June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents (note 2)	$ 13,523,125	$ 13,300,204
Investments (note 2)	67,950,287	57,662,376
Receivables, net (note 4)	22,131,353	26,170,760
Stored groundwater inventory	1,525,095	1,525,095
Materials and supplies inventory	732,860	702,732
Other current assets	254,361	434,539
Total current assets	106,117,081	99,795,706
Non-current assets:		
Restricted cash and cash equivalents (note 2, 3)	26,667,847	5,864,072
Restricted investments (note 2, 3)	35,371,988	35,422,423
Prepaid assets (note 11)	184,924	410,102
Notes receivable (note 4)	9,365,105	9,605,332
Assessments receivable	2,575,000	2,670,000
Deferred charges	1,386,120	949,056
Deferred SWAP outflow (note 8)	2,802,559	3,931,920
Capital assets not being depreciated (note 6, 14, 15)	112,004,126	124,265,856
Capital assets being depreciated, net (note 6, 15)	242,295,699	209,189,857
Total non-current assets	432,653,368	392,308,618
Total assets	538,770,449	492,104,324
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	22,139,231	24,069,803
Customer deposits and deferred revenue	1,103,090	1,302,473
Construction advances	2,234,042	2,325,247
Accrued interest payable	1,686,602	1,106,292
Long-term liabilities - due in less than one year:		
Compensated absences (note 5)	1,453,919	1,328,152
Due to other governments payable (note 7)	566,522	541,876
Notes payable (note 7)	1,125,637	950,463
Bonds payable (note 7)	2,070,000	2,020,000
Total current liabilities	32,379,043	33,644,306
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
SWAP liability (note 8)	2,802,559	3,931,920
Compensated absences (note 5)	445,749	387,201
Due to other governments payable (note 7)	3,261,487	3,828,009
Notes payable (note 7)	8,802,046	9,669,771
Bonds payable (note 7)	143,104,211	92,582,613
Total non-current liabilities	158,416,052	110,399,514
Total liabilities	190,795,095	144,043,820
Commitments and contingencies (note 14)		
Net Assets:		
Invested in capital assets, net of related debt (note 9)	235,918,546	240,276,365
Restricted for debt service (note 3)	144,619	144,619
Restricted for capacity charges (note 3)	26,151,035	29,118,573
Unrestricted	85,761,154	78,520,947
Total net assets	$ 347,975,354	$ 348,060,504

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2011 and 2010

	2011	2010
Operating Revenues:		
Water sales	$ 56,473,710	$ 56,223,768
Water service	10,477,058	9,127,539
Wastewater disposal	10,862,351	10,723,639
Other charges and services	88,520	748,437
Contractual services	1,569,409	2,303,612
Total operating revenues	79,471,048	79,126,995
Operating Expenses:		
Source of supply	2,249,030	2,384,027
Purchased water	51,890,617	51,859,715
Pumping - booster pumps	3,853,402	3,495,685
Water treatment	2,048,534	1,343,418
Transmission and distribution	6,234,543	6,533,961
Customer accounts	446,587	695,876
Administrative and general	11,456,106	10,714,044
Contractual services	1,528,335	2,745,281
Special studies and projects	894,954	2,273,136
Other operating expense	298,565	806,779
Wastewater disposal	9,086,468	9,018,894
Total operating expenses before depreciation and amortization	89,987,141	91,870,816
Operating loss before depreciation and amortization	(10,516,093)	(12,743,821)
Depreciation and amortization	(10,262,842)	(8,410,181)
Operating loss	(20,778,935)	(21,154,002)
Non-operating revenue (expense):		
Property taxes (note 10)	15,106,222	16,262,545
Investment earnings	3,802,288	6,826,692
Interest expense	(3,422,262)	(4,700,144)
Capacity rights sales	997,710	163,118
Intergovernmental revenue	621,505	-
Other revenues	386,547	2,162,033
Other expenses	(2,291,681)	(2,893,130)
Gain (loss) on disposal of assets, net	(326,200)	(186,045)
Total net non-operating revenues	14,874,129	17,635,069
Net (loss) before capital contributions	(5,904,806)	(3,518,933)
Capital contributions:		
Capacity charges	512,936	6,444,112
Developer capital contributions	2,021,824	17,240,373
Federal, state and local capital grants	3,284,896	3,139,581
Total capital contributions	5,819,656	26,824,066
Change in net assets	(85,150)	23,305,133
Net assets, beginning of year	348,060,504	324,755,371
Net assets, end of year	$ 347,975,354	$ 348,060,504

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	$ 74,780,989	$ 83,966,756
Cash paid to employees for salaries and wages	(11,882,680)	(12,283,577)
Cash paid to vendors and suppliers for materials and services	(75,403,353)	(82,475,733)
Net cash (used in) operating activities	(12,505,044)	(10,792,554)
Cash flows from non-capital financing activities:		
Proceeds from property taxes and assessments	15,201,222	16,407,545
Proceeds from note receivable	38,169	80,819
Proceeds from intergovernments	621,505	-
Net cash provided by non-capital financing activities	15,860,896	16,488,364
Cash flows from capital and related financing activities:		
Proceeds from capacity rights sales	252,596	163,118
Proceeds from note receivable	394,260	387,509
Acquisition and construction of capital assets	(30,655,356)	(43,517,665)
Proceeds from disposal of capital assets	-	33,062
Proceeds from capital contributions	8,468,181	1,706,920
Proceeds from the issuance of long-term debt	52,508,638	11,000,000
Principal paid on long-term debt	(4,020,337)	(3,183,015)
Interest paid on long-term debt	(2,841,952)	(4,381,399)
Net cash provided by (used in) capital and related financing activities	24,106,031	(37,791,470)
Cash flows from investing activities:		
Investment earnings	4,768,289	4,478,287
Purchase of investments	(69,660,146)	(69,650,092)
Proceeds from sale of investments	58,456,670	43,912,890
Net cash (used in) investing activities	(6,435,187)	(21,258,915)
Net increase (decrease) in cash and cash equivalents	21,026,696	(53,354,575)
Cash and cash equivalents, beginning of year	19,164,276	72,518,851
Cash and cash equivalents, end of year	$ 40,190,972	$ 19,164,276
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents	$ 13,523,125	$ 13,300,204
Restricted cash and cash equivalents	26,667,847	5,864,072
Total cash and cash equivalents	$ 40,190,972	$ 19,164,276

Continued on next page

See accompanying notes to the basic financial statements

Western Municipal Water District
Statements of Cash Flows, Continued
For the Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (20,778,935)	$ (21,154,002)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	9,846,969	7,850,996
Amortization	411,806	559,185
(Gain) loss on capital asset disposals	326,200	186,045
Other revenues	1,131,661	2,152,033
Other expenses	(2,291,681)	(2,893,130)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(2,585,542)	5,922,174
Stored groundwater inventory	-	26
Materials and supplies inventory	(30,128)	81,250
Prepaid expense	225,178	665,380
Other current assets	180,178	89,988
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,074,318	(4,624,738)
Customer deposits and deferred revenue	(199,383)	287,722
Compensated absences	184,315	84,517
Total adjustments	8,273,891	10,361,448
Net cash (used in) operating activities	$ (12,505,044)	$ (10,792,554)
Non-cash investing, capital and financing transactions:		
Change in fair value of investments	$ (966,001)	$ 2,348,405
Capital contributions	3,693,016	14,954,409
Acquisition and construction of capital assets in accounts payable	5,283,466	8,288,356

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Western Municipal Water District of Riverside County (District) was formed in 1954 and created for the purpose of importing and delivering water to wholesale and retail customers within its service area. The District is governed by a five-member Board of Directors who serve overlapping four-year terms. The District purchases approximately 94% of its water from the Metropolitan Water District of Southern California. Approximately 30% of the purchased water comes from the Colorado River aqueduct and approximately 70% from the State Water Project.

The criteria used in determining the scope of the financial reporting entity is based on Codification of Governmental Accounting and Financial Reporting Standards, Part II. Financial Reporting, Section 2100: *Defining the Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: (1) It is able to impose its will on that organization, or (2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Western Municipal Water District Facilities Authority (Authority) was created in October of 2002 by a joint exercise of powers agreement for the purpose of financing public capital improvements. It is governed by a Board of Directors comprised of the District's Board of Directors. The Authority has issued debt which is secured solely from installment payments payable under an installment purchase agreement entered into by the District and the Authority. All accounts or funds created and established pursuant to any instrument or agreement to which the Authority is a party, and any interest earned or accrued thereon, shall incur to the benefit of the District. Separate financial statements are not prepared for the Authority. It is reported as a blended component unit.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where, in most instances, the intent of the District is that the costs of providing water or wastewater disposal to its service area on a continuing basis be financed or recovered primarily through user charges (water sales, water service charges and wastewater disposal), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales, water purchases and wastewater disposal result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

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

C. Financial Reporting

The District is a special purpose government that has only enterprise activity and therefore follows the reporting requirements for enterprise funds. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, establishing accounting and financial reporting standards for the financial statements of state and local governments. The standard incorporates into the GASB's authoritative literature the applicable guidance previously only found in certain FASB and American Institute of Certified Public Accounts (AICPA) pronouncements issued before November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For the purpose of the statements of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The District invests funds with the State of California's Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as a cash equivalent. For credit risk purposes, the fund is not rated.

2. Investments

Investments are reported in the accompanying statement of net assets at fair value based on the last reported sales price published on the national exchange. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. In addition to the change in fair value, other investment income, such as interest earnings and any gains or losses realized, is recognized upon the liquidation or sale of investments.

3. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. Based on management evaluation of customer accounts and creditor's ability to pay, allowance for doubtful accounts is set up as a bad debt expense. A net charge of $23,203 and $332,356 was made to bad debt expense resulting to an allowance for uncollectible accounts of $435,402 and $781,458 for fiscal years ended June 30, 2011 and 2010, respectively.

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

D. Assets, Liabilities and Net Assets, continued

4. Property Taxes and Assessments

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax revenue is recognized in the period levied for, less an allowance estimated for uncollectibles. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Date	November 1 - 1st Installment
	February 1 - 2nd Installment
Delinquent Date	December 10th - 1st Installment
	April 10th - 2nd Installment

5. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

6. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the effective interest rate method over the remaining life of the respective debt service.

7. Hedge Accounting

The District applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Financial Instruments*.

The District has determined that its interest rate swap agreement for reducing interest rate exposure on its variable rate debt is a hedging derivative instrument. Under hedge accounting, the changes in fair values of a hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

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

D. Assets, Liabilities and Net Assets, continued

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000 and an estimated useful life of more than one year. Donated assets are recorded at estimated fair market value at the date of donation. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Vehicles and Equipment	5 - 10 years
Plant	20 - 40 years
Buildings	25 years

The District participates with various agencies entitling it to certain capacity rights. Such capacity rights are recorded as intangible assets and treated in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District's participation in these agencies is through cash payments. Monies used for the construction or expansion of capital assets, such as pipelines, wastewater facilities, etc., are recorded as capacity rights and included in capital assets. The capacity rights have either an indefinite useful life or a definite useful life depending on any legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. Capacity rights with definite useful life are amortized over the life of the agreements.

A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The District periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management has determined that there were no such impairments at June 30, 2011 and 2010.

In accordance with the GASB Statement No. 59, *Financial Instruments Omnibus*, interest costs on taxable Build America Bonds, used to finance the acquisition and construction of the District's capital assets, are reported gross, and are not offset by federal reimbursement.

On the Build America Bonds, gross interest expense amounts are used to calculate capitalized interest on construction projects.

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

D. Assets, Liabilities and Net Assets, continued

9. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation leave up to a maximum of 40 days and accrues at a rate of 10 to 20 days per year based on the number of years of employment. A terminating employee will be compensated for accrued vacation time based on the employee's rate on the date of termination. Sick leave accrues at the rate of 8 hours per month up to a maximum of 1,600 hours. Upon termination, the District pays 25% of accumulated sick leave for the first year of service, plus 3% per year for each additional full year of service. An employee who has accumulated in excess of 500 hours of sick leave may be compensated at the formula used for terminating employees for any hours exceeding five hundred 500 hours, but not more than 80 hours in any calendar year, and only once per calendar year. In addition, an employee that completes a full calendar year of employment (January 1 to December 31) and that uses no more than 18 accrued hours of sick leave during that calendar year, may be compensated for up to 40 hours of accrued sick leave at the employee's applicable rate of pay.

10. Water and Wastewater Services

Water and wastewater revenue is based on usage and recognized at the time of use. Customers are billed on a monthly cyclical basis. Estimated unbilled water and wastewater revenue based on estimated usage through June 30 has been accrued at year-end.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment. Capital contributions are recognized on the statement of revenues, expenses and changes in net assets when related services are provided or expenses incurred.

12. Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

13. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.

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

D. Assets, Liabilities and Net Assets, continued

13. Net Assets, continued

- **Restricted for debt service and capacity charges** – This component of net assets consists of the following line items: restricted for debt service and restricted for capacity charges. Restricted net assets have constraints placed on them imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

14. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

15. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

16. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) Cash and Investments

Cash and investments as of June 30, are classified in the financial statements as follows:

		2011	2010
Cash and cash equivalents	$	13,523,125	13,300,204
Restricted cash and cash equivalents		26,667,847	5,864,072
Investments		67,950,287	57,662,376
Restricted investments		35,371,988	35,422,423
	$	143,513,247	112,249,075

(2) Cash and Investments, continued

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

	2011	2010
Petty cash	$ 16,300	15,950
Deposits with financial institutions	5,054,460	4,375,969
Money market funds	745,976	3,364,683
California Local Agency Investment Fund	9,285,217	7,483,047
Money market funds with fiscal agent	25,089,019	3,924,627
Total cash and cash equivalents	40,190,972	19,164,276
U.S. Treasury notes	16,906,068	13,929,041
Government sponsored agency securities	55,558,054	41,377,924
Corporate bonds	30,858,153	37,777,834
Total investments	103,322,275	93,084,799
	$ 143,513,247	112,249,075

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	10 years	None	None
State Registered Obligations	5 years	10%	None
Other Local California Agency Obligations	5 years	None	None
U.S. Agency Securities	10 years	None	None
Banker's Acceptances	180 days	40%	30%
Prime Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	5%	None
Medium-Term Corporate Notes	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	$40 million	None
Money Market Mutual Funds & Mutual Funds	5 years	20%	None
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None

(2) Cash and Investments, continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreement, 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 a bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Government Obligations	None	None	None
Local Agency Bonds	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposit	365 days	10%	None
Money Market Funds	N/A	None	None
Local Agency Investment Fund [(1)]	N/A	None	None

(1) Money in the Reserve Fund may not be invested in the Local Agency Investment Fund.

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 the failure of the counterparty (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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). In addition, none of the District's counterparties hold the investments, for which separate safekeeping arrangements exist.

At June 30, 2011 and 2010, the carrying amounts of the District's deposits were $5,054,460 and $4,375,969, respectively; and the corresponding bank balances were $7,655,006 and $4,805,678. The difference of $2,600,546 and $429,709 at June 30, 2011 and 2010, respectively, were principally due to outstanding checks, wires, and/or deposits in transit. Of the bank balances, $250,000 was insured by FDIC depository insurance and the remaining balances were uncollateralized and not insured by FDIC depository insurance.

(2) Cash and Investments, continued

Investment in State Investment Pool

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

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. The District's investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Maturities of investments at June 30, 2011 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury Notes	$ 16,906,068	$ -	$ 8,868,035	$ 8,038,033	-
Government Sponsored Agency Securities	55,558,054	3,038,963	28,155,508	23,549,244	814,339
Corporate Bonds	30,858,153	4,200,741	26,657,412	-	-
Total	$ 103,322,275	$ 7,239,704	$ 63,680,955	$ 31,587,277	814,339

Maturities of investments at June 30, 2010 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasury Notes	$ 13,929,041	$ -	$ 9,189,419	$ 4,739,622	-
Government Sponsored Agency Securities	41,377,924	684,491	16,681,826	24,011,607	-
Corporate Bonds	37,777,834	1,250,000	36,527,834	-	-
Total	$ 93,084,799	$ 1,934,491	$ 62,399,079	$ 28,751,229	-

Credit Risk

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.

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2011 were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year-End AAA	AA	A	Not Rated
U.S. Treasury Notes	$ 16,906,068	N/A	$ 16,906,068	$ -	$ -	$ -	-
Government Sponsored Agency Securities	55,558,054	None	-	55,558,054	-	-	-
Corporate Bonds	30,858,153	A	-	3,986,728	9,629,103	17,242,322	-
	$ 103,322,275		$ 16,906,068	$ 59,544,782	$ 9,629,103	$ 17,242,322	-

Credit ratings of investments as of June 30, 2010 were as follows:

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Ratings as of Year-End AAA	AA	A	Not Rated
U.S. Treasury Notes	$ 13,929,041	N/A	$ 13,929,041	$ -	$ -	$ -	-
Government Sponsored Agency Securities	41,377,924	None	-	41,377,924	-	-	-
Corporate Bonds	37,777,834	A	-	17,893,152	9,683,584	10,201,098	-
	$ 93,084,799		$ 13,929,041	$ 59,271,076	$ 9,683,584	$ 10,201,098	-

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with government sponsored agencies and LAIF is 6.47% and 6.67% as of June 30, 2011 and 2010, respectively, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 15% or more of the District's total investments.

Issuer	Investment Type	2011 Reported Amount	2010 Reported Amount	2011 % of Total Investments	2010 % of Total Investments
Federal Farm Credit Bank	Government Sponsored Agency Securities	$ 6,314,325	$ 4,880,622	6%	5%
Federal Home Loan Bank	Government Sponsored Agency Securities	14,825,388	8,506,266	14%	9%
Federal National Mortgage Association	Government Sponsored Agency Securities	14,122,009	8,423,259	14%	9%
Tennessee Valley Authority	Government Sponsored Agency Securities	5,810,793	8,470,484	6%	9%
Federal Home Loan Mortgage Corp.	Government Sponsored Agency Securities	14,485,540	11,097,293	14%	12%

(3) Restricted Cash and Investments

Restricted cash and cash equivalents at June 30 are restricted as follows:

	2011	2010
SARI capacity use loan from SAWPA	$ 1,578,828	$ 1,939,445
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Reserve Fund	93,808	1,827,661
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Debt Service Fund	-	8,020
2009 Series B Water Revenue Bonds Reserve Fund and Debt Service Fund	83,307	1,497,330
2009 Series B Water Revenue Bonds Construction Fund	-	591,610
2010 Series A Water Revenue Bonds Service Fund	2,413	-
2010 Series A Water Revenue Bonds Construction Fund	9,687,194	-
2010 Series B Water Revenue Bonds Construction Fund	15,222,297	-
Other	-	6
	$ 26,667,847	5,864,072

Restricted investments at June 30 are restricted as follows:

	2011	2010
Capacity charges	$ 26,151,035	$ 29,118,573
Reserve for Assessment District AD 90-1	144,619	144,619
Customer deposits	984,944	1,193,779
Construction advances	2,234,042	2,325,586
2009 Series A Adjustable Rate Water Revenue Refunding Bonds Reserve Fund	3,196,325	1,426,005
2009 Series B Water Revenue Bonds Reserve Fund and Debt Service Fund	2,661,023	1,213,861
	$ 35,371,988	35,422,423

(4) Accounts Receivable

Receivables at June 30 consisted of the following:

	2011	2010
Utility services - wholesale	$ 15,390,108	$ 20,496,911
Utility services - retail	5,011,100	4,102,177
Allowance for doubtful accounts	(435,402)	(781,458)
Accrued interest	717,774	607,885
Property taxes & assessments	1,402,983	1,432,180
Other	44,790	313,065
	$ 22,131,353	$ 26,170,760

(4) Accounts Receivable, continued

Non-current Receivables

Non-current receivables at June 30 consisted of the following:

	2011	2010
Note receivable from Elsinore Valley Municipal Water District	$ 1,099,808	$ 1,255,408
Note receivable from Jurupa Community Services District	7,975,238	8,213,898
Other	290,059	136,026
	$ 9,365,105	$ 9,605,332

On January 12, 1999, the District sold 0.8 MGD of pipeline capacity to Elsinore Valley Municipal Water District (EVMWD) for $3,060,000 for which a note was received. An initial payment of $153,000 was received within 30 days of the agreement date. The note requires EVMWD to pay the District twenty annual interest and principal payments of $215,663 beginning March 1999 and bearing an interest rate of 4%. The balance at June 30, 2011 and 2010 was $1,099,808 and $1,255,408, respectively.

In July 2004, the District sold 3.0 MGD of pipeline capacity to Jurupa Community Services District (Jurupa) for $9,486,754 for which a note was received. The note requires Jurupa to pay the District 29 annual principal payments ranging from $198,884 to $517,098 beginning January 1, 2005. The interest rate is variable starting at 1.985%. The balance at June 30, 2011 and 2010 was $7,975,238 and $8,213,898, respectively.

Other notes receivable amounted to $290,059 and $136,026 at June 30, 2011 and 2010, respectively.

(5) Compensated Absences

Compensated absences comprise unpaid vacation and sick leave which is accrued as earned. The District's liability for compensated absences is determined annually.

Balance 2010	Earned	Taken	Balance 2011	Current Portion	Long-term Portion
$ 1,715,353	1,690,494	(1,506,179)	$ 1,899,668	$ 1,453,919	$ 445,749

Balance 2009	Earned	Taken	Balance 2010	Current Portion	Long-term Portion
$ 1,630,836	1,524,950	(1,440,433)	$ 1,715,353	$ 1,328,152	$ 387,201

(6) Capital Assets

Balance in capital assets for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions	Deletions / Transfers	Balance 2011
Capital assets not being depreciated:				
Land	$ 4,586,853	$ 2,232,446	$ -	$ 6,819,299
Capacity rights	23,385,735	-	-	23,385,735
Construction-in-progress	96,293,268	26,209,969	(40,704,145)	81,799,092
Total capital assets not being depreciated	124,265,856	28,442,415	(40,704,145)	112,004,126
Capital assets being depreciated:				
Land improvements	3,358,670	579,931	-	3,938,601
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	-	1,064,308
Pumping plant	29,986,848	342,005	-	30,328,853
Water treatment plant	7,243,291	29,963	(22,923)	7,250,331
Transmission and distribution plant	182,641,220	7,432,579	(85,229)	189,988,570
Wastewater treatment plant	42,114,497	1,122,891	(1,000)	43,236,388
Buildings	3,712,713	25,926,811	(4,500)	29,635,024
Furniture, fixtures and office equipment	612,085	1,574,633	(72,558)	2,114,160
Vehicles	3,578,936	804,710	(22,038)	4,361,608
Construction and maintenance equipment	838,862	14,355	(10,539)	842,678
Computer equipment	584,602	4,345,048	(394,435)	4,535,215
Miscellaneous equipment	431,804	332,047	(52,693)	711,158
Capacity rights	10,222,547	497,937	-	10,720,484
Total capital assets being depreciated	287,283,602	43,002,910	(665,915)	329,620,597
Less accumulated depreciation:				
Land improvements	(1,648,859)	(129,310)	-	(1,778,169)
Plant	(733,963)	(17,756)	-	(751,719)
Source of supply - plant	(941,523)	(17,590)	-	(959,113)
Pumping plant	(8,937,574)	(1,333,371)	-	(10,270,945)
Water treatment plant	(3,058,190)	(567,055)	22,923	(3,602,322)
Transmission and distribution plant	(48,010,923)	(5,735,889)	41,620	(53,705,192)
Wastewater treatment plant	(4,855,095)	(1,296,289)	1,000	(6,150,384)
Buildings	(2,958,373)	(122,381)	4,500	(3,076,254)
Furniture, fixtures and office equipment	(517,306)	(23,513)	72,558	(468,261)
Vehicles	(2,804,492)	(363,689)	22,038	(3,146,143)
Construction and maintenance equipment	(694,445)	(39,117)	10,539	(723,023)
Computer equipment	(438,993)	(17,947)	387,945	(68,995)
Miscellaneous equipment	(330,143)	(30,059)	52,693	(307,509)
Capacity rights	(2,163,866)	(153,003)	-	(2,316,869)
Total accumulated depreciation	(78,093,745)	(9,846,969)	615,816	(87,324,898)
Total capital assets being depreciated, net	209,189,857	33,155,941	(50,099)	242,295,699
Total capital assets, net	$ 333,455,713	$ 61,598,356	$ (40,754,244)	$ 354,299,825

(6) Capital Assets, continued

Balance in capital assets for the year ended June 30, 2010 were as follows:

	Balance 2009	Additions	Deletions / Transfers	Balance 2010
Capital assets not being depreciated:				
Land	$ 4,536,853	$ 50,000	$ -	$ 4,586,853
Capacity rights	24,269,735	-	(884,000)	23,385,735
Construction-in-progress	49,054,199	52,719,940	(5,480,871)	96,293,268
Total capital assets not being depreciated	77,860,787	52,769,940	(6,364,871)	124,265,856
Capital assets being depreciated:				
Land improvements	3,032,793	325,877	-	3,358,670
Plant	893,219	-	-	893,219
Source of supply - plant	1,064,308	-	-	1,064,308
Pumping plant	29,029,106	2,037,575	(1,079,833)	29,986,848
Water treatment plant	7,201,522	78,567	(36,798)	7,243,291
Transmission and distribution plant	173,556,285	8,822,250	262,685	182,641,220
Wastewater treatment plant	35,522,031	6,592,466	-	42,114,497
Buildings	3,848,035	-	(135,322)	3,712,713
Furniture, fixtures and office equipment	614,796	-	(2,711)	612,085
Vehicles	3,848,284	144,927	(414,275)	3,578,936
Construction and maintenance equipment	791,585	47,277	-	838,862
Computer equipment	499,170	133,034	(47,602)	584,602
Miscellaneous equipment	368,314	63,490	-	431,804
Capacity rights	9,182,693	1,039,854	-	10,222,547
Total capital assets being depreciated	269,452,141	19,285,317	(1,453,856)	287,283,602
Less accumulated depreciation:				
Land improvements	(1,534,916)	(113,943)	-	(1,648,859)
Plant	(698,420)	(35,543)	-	(733,963)
Source of supply - plant	(923,933)	(17,590)	-	(941,523)
Pumping plant	(8,844,357)	(1,076,648)	983,431	(8,937,574)
Water treatment plant	(2,518,731)	(562,788)	23,329	(3,058,190)
Transmission and distribution plant	(44,444,368)	(4,089,400)	522,845	(48,010,923)
Wastewater treatment plant	(3,709,322)	(1,145,773)	-	(4,855,095)
Buildings	(2,967,021)	(123,168)	131,816	(2,958,373)
Furniture, fixtures and office equipment	(496,727)	(23,290)	2,711	(517,306)
Vehicles	(2,851,725)	(359,782)	407,015	(2,804,492)
Construction and maintenance equipment	(650,291)	(44,154)	-	(694,445)
Computer equipment	(477,589)	(9,006)	47,602	(438,993)
Miscellaneous equipment	(301,942)	(28,201)	-	(330,143)
Capacity rights	(1,942,156)	(221,710)	-	(2,163,866)
Total accumulated depreciation	(72,361,498)	(7,850,996)	2,118,749	(78,093,745)
Total capital assets being depreciated, net	197,090,643	11,434,321	664,893	209,189,857
Total capital assets, net	$ 274,951,430	$ 64,204,261	$ (5,699,978)	$ 333,455,713

(6) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

	2011	2010	2009
Western Water Recycling Facility expansion - phase II	$ 58,911,875	$ 48,162,374	$ 26,884,682
Chino Basin desalter expansion	5,378,133	2,488,674	774,446
Riverside - Corona feeder	3,382,072	3,234,086	2,679,118
Arlington Desalter expansion	2,441,521	2,401,368	2,221,299
Recycled Water Distribution System	1,656,305	-	-
River Road Bridge Pipelines	1,229,193	-	-
New operations center	-	11,562,378	1,846,614
Headquarters Building	-	11,171,804	-
Hidden Valley Tank	-	4,090,079	3,450,878
ERP Finance Implementation	-	2,107,217	550,889
IT Master Plan: CIS	-	1,491,337	602,714
Hayes Ave from Ivy Pipeline	-	1,171,877	176,284
Hidden Valley Pipe Project	-	-	990,940
Various projects	8,542,080	8,412,074	8,876,335
Construction-in-process	$ 81,541,179	$ 96,293,268	$ 49,054,199

(7) Long-Term Debt

Long-term debt activities for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions	Deletions	Balance 2011	Current Portion	Long-Term Portion
Due to other local government agencies:						
Santa Ana Watershed Project Authority:						
Brine Line capacity use rights	$ 339,342	$ -	$ (165,532)	$ 173,810	$ 173,810	$ 0
Brine Line capacity use rights	3,791,049	-	(349,215)	3,441,834	364,823	3,077,011
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board	239,494	-	(27,129)	212,365	27,889	184,476
	4,369,885	-	(541,876)	3,828,009	566,522	3,261,487
Bonds payable:						
Assessment District 90-1	670,000	-	(95,000)	575,000	95,000	480,000
Unamortized discount	(7,799)	-	1,632	(6,167)	-	(6,167)
2009 Series A bonds	46,335,000	-	(1,255,000)	45,080,000	1,305,000	43,775,000
2009 Series B bonds	53,825,000	-	(670,000)	53,155,000	670,000	52,485,000
Unamortized discount	(616,359)	-	28,479	(587,880)	-	(587,880)
Deferred loss on refunding	(5,603,229)	-	420,689	(5,182,540)	-	(5,182,540)
2010 Series A bonds	-	8,485,000	-	8,485,000	-	8,485,000
2010 Series B bonds	-	42,755,000	-	42,755,000	-	42,755,000
Unamortized premium	-	1,266,470	(116,812)	1,149,658	-	1,149,658
Unamortized discount		(255,745)	6,885	(248,860)	-	(248,860)
	$ 94,602,613	$ 52,250,725	$ (1,679,127)	$ 145,174,211	$ 2,070,000	$ 143,104,211
Notes payable:						
Note payable - Land	$ 67,176	$ -	$ (21,309)	$ 45,867	$ 22,374	$ 23,493
Note payable - Headquarters Building	10,553,058	-	(929,155)	9,623,903	967,639	8,656,264
Note payable - Other	-	257,913	-	257,913	135,624	122,289
	10,620,234	257,913	(950,464)	9,927,683	1,125,637	8,802,046
Total long-term debt	$ 109,592,732	$ 52,508,638	$ (3,171,467)	$ 158,929,903	$ 3,762,159	$ 155,167,744

(7) Long-Term Debt, continued

Long-term debt activities for the year ended June 30, 2010 were as follows:

	Balance 2009	Additions	Deletions	Balance 2010	Current Portion	Long-Term Portion
Due to other local government agencies:						
Santa Ana Watershed Project Authority:						
Brineline capacity use rights	$ 496,993	$ -	$ (157,651)	$ 339,342	$ 165,533	$ 173,809
SARI capacity use rights	4,125,537	-	(334,488)	3,791,049	349,214	3,441,835
Western Riverside County Regional Wastewater Authority:						
State Water Resources Control Board	265,884	-	(26,390)	239,494	27,129	212,365
	4,888,414	-	(518,529)	4,369,885	541,876	3,828,009
Bonds payable:						
Assessment District 90-1	755,000	-	(85,000)	670,000	95,000	575,000
Unamortized discount	(9,431)	-	1,632	(7,799)	-	(7,799)
2009 Series A bonds	48,000,000	-	(1,665,000)	46,335,000	1,255,000	45,080,000
2009 Series B bonds	54,340,000	-	(515,000)	53,825,000	670,000	53,155,000
Unamortized discount	(647,259)	-	30,900	(616,359)	-	(616,359)
Deferred loss on refunding	(6,198,805)	-	595,576	(5,603,229)	-	(5,603,229)
	96,239,505	-	(1,636,892)	94,602,613	2,020,000	92,582,613
Notes payable:						
Note payable - Land	87,470	-	(20,294)	67,176	21,309	45,867
Note payable - Headquarters Building	-	11,000,000	(446,942)	10,553,058	929,154	9,623,904
	87,470	11,000,000	(467,236)	10,620,234	950,463	9,669,771
Total long-term debt	$ 101,215,389	$ 11,000,000	$ (2,622,657)	$ 109,592,732	$ 3,512,339	$ 106,080,393

(7) Long-Term Debt, continued

The future annual maturities of all long-term borrowings as of June 30, 2011 are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 3,762,159	$ 7,471,196	$ 11,233,355
2013	4,613,539	7,341,490	11,955,029
2014	4,637,837	7,197,089	11,834,926
2015	4,825,721	7,009,068	11,834,789
2016	5,021,545	6,812,970	11,834,515
2017-2021	24,269,890	31,071,933	55,341,823
2022-2026	21,860,000	26,788,137	48,648,137
2027-2031	26,100,000	21,894,136	47,994,136
2032-2036	31,610,000	15,581,009	47,191,009
2037-2041	37,105,000	5,922,189	43,027,189
Total	163,805,692	$ 137,089,217	$ 300,894,909
Unamortized discount	(842,907)		
Unamortized premium	1,149,658		
Deferred loss on refunding	(5,182,540)		
Total	158,929,903		
Less current portion	(3,762,159)		
Total non-current	$ 155,167,744		

(7) Long-Term Debt, continued

Due to Other Governmental Agencies

SAWPA 1.0 MGD Brine Line Pipeline Capacity

In 1993, the District purchased a brine line pipeline capacity use right from SAWPA of 1.0 MGD in the Brine Line which is to be paid by making twenty annual installments of $182,500 each year beginning in June of 1993. While the agreement did not specify an interest rate, generally accepted accounting principles require imputing interest in this type of situation. The District is imputing interest at a rate of 5.0% annually. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	173,810	8,690	182,500
Total	173,810	$ 8,690	$ 182,500
Less current portion	(173,810)		
Total non-current	$ -		

SAWPA 2.0 MGD Brine Line Pipeline Capacity

On January 12, 1999, the District entered into an agreement (Agreement) with SAWPA to purchase brine line capacity use rights of 2.0 MGD in the Brine Line for $7,500,000 with an annual interest rate of 4.0%. An initial payment of 5% of the purchase price was paid within 30 days of the agreement date. The terms of the agreement require annual payments of interest and principal of $528,584 for twenty years beginning July 1999. This agreement provided the District with the option to sell the purchased capacity to Elsinore Valley Municipal Water District (EVMWD) and the City of Corona. On January 12, 1999, the District sold 0.8 MGD of pipeline capacity use right to EVMWD and 1.2 MGD of pipeline capacity to the City of Corona. EVMWD issued a note for $3,060,000 for their purchases. For additional information on the note, refer to Note 4. The City of Corona paid $4.6 million in cash for their purchases. Cash received from the City of Corona in the amount of $1.6 million as of June 30, 2011 is restricted for repayment to SAWPA as well as any interest earned. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 364,823	$ 163,760	$ 528,584
2013	381,369	147,215	528,584
2014	398,907	129,676	528,584
2015	417,498	111,086	528,584
2016	437,204	91,380	528,584
2017-2021	1,442,033	143,720	1,585,753
Total	3,441,834	$ 786,837	$ 4,228,671
Less current portion	(364,823)		
Total non-current	$ 3,077,011		

(7) Long-Term Debt, continued

Due to Other Governmental Agencies, continued

State Water Resources Control Board – Contract 3 and 4

On March 27, 1996 the District entered into an agreement with Western Riverside County Regional Wastewater Authority (WRCRWA) to purchase capacity in certain components of a wastewater treatment system. The District's share of the debt on the State Water Resources Control Board loans and the terms of the repayment are as follows:

State Water Resources Control Board – Contract 3
Loan was advanced for the construction of South Regional Conveyance System Phase II. The maximum loan amount was $4,583,644 with interest at 2.8%. The District is responsible for 7.26% of the loan. The District's share of annual repayment is $22,272 including principal and interest.

State Water Resources Control Board – Contract 4
Loan was advanced for the construction of the South Regional Pumping Station. The maximum loan amount was $1,853,499 with interest at 2.8%. The District is responsible for 9.4% of the loan. The District's share of the annual repayments is $11,562, including principal and interest.

The loans with the State Water Resources Control Board contain covenants and restrictions which include, but are not limited to, assurances relating to adherence to the Clean Water Act, Equal Opportunity and Civil rights laws, and certain other assurances. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 27,889	$ 5,946	$ 33,835
2013	28,669	5,165	33,834
2014	29,471	4,363	33,834
2015	30,296	3,537	33,833
2016	31,145	2,689	33,834
2017-2021	64,895	2,738	67,633
Total	212,365	$ 24,438	$ 236,803
Less current portion	(27,889)		
Total non-current	$ 184,476		

(7) Long-Term Debt, continued

Bonds Payable

Improvement Bonds

The improvement proceedings for Assessment District 90-1 (Lake Hills) were initiated by adoption of the Resolution of Intention, Resolution 1675, by the Board of Directors of the District on June 20, 1990. The proceedings were conducted pursuant to the Municipal Improvement Act of 1913. The proceeds from the sale of the Improvement Bonds were used to pay for the construction and acquisition of water system and sewer system improvements. The Bonds represent unpaid assessments levied against private property in the Assessment District in accordance with the provisions of the Municipal Improvement Act of 1913, and were issued pursuant to the Improvement Bond Act of 1915.

The Improvement Bonds in the amount of $5,630,822 were issued in August 1990, with original issuance discount of $32,279, and mature September 2, 1991 through September 2, 2015. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The interest rate varies from 6.80% to 7.125%. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 95,000	$ 37,573	$ 132,573
2013	105,000	30,460	135,460
2014	115,000	22,622	137,622
2015	125,000	14,072	139,072
2016	135,000	4,809	139,809
Total	575,000	$ 109,536	$ 684,536
Less current portion	(95,000)		
Total non-current	$ 480,000		

2009 Series A Bonds

The 2009 Series A Bonds are adjustable interest rate bonds with varying optional redemption provisions whose rates adjust from the remarketing of bonds tendered for redemption. An underlying credit facility provides liquidity and security for redemption should remarketing efforts not provide sufficient funds. The credit facility expires on May 14, 2012. The District's schedule of future annual maturities as disclosed below assumes that the credit facility will be renewed upon expiration. In addition to optional redemption, mandatory redemption occurs through scheduled sinking fund payments. The Bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

(7) Long-Term Debt, continued

Bonds Payable, continued

2009 Series A Bonds, continued

The District has entered into an interest rate swap agreement for its 2009 Series A Bonds effectively converting these adjustable rate bonds to synthetic fixed rate bonds. Under the arrangement, the District pays a fixed rate of 2.96% and receives a floating rate equal to 67% of One Month USD LIBOR. Actual payments are settled net. Refer to Note 8 for further information on the swap agreement.
As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

	Variable-Rate Bonds		
Year Ending June 30,	Principal	Interest [1]	Total
2012	$ 1,305,000	$ 1,334,368	$ 2,639,368
2013	1,355,000	1,295,740	2,650,740
2014	1,410,000	1,255,632	2,665,632
2015	1,470,000	1,213,896	2,683,896
2016	1,530,000	1,170,384	2,700,384
2017-2021	8,640,000	5,134,416	13,774,416
2022-2026	10,555,000	3,747,064	14,302,064
2027-2031	12,895,000	2,051,872	14,946,872
2032-2036	5,920,000	264,624	6,184,624
Total	45,080,000	$ 17,467,996	$ 62,547,996
Less current portion	(1,305,000)		
Total non-current	$ 43,775,000		

(1) Assuming an interest rate of 2.96% based on the Swap.

2009 Series B Bonds

In May 2009, the Western Municipal Water District Facilities Authority issued $54,340,000 of 2009 Series B Water Revenue Bonds with original issuance discount of $647,259. The Bonds were issued to finance the acquisition and construction of certain water and wastewater facilities. Interest on the Bonds is paid semiannually at stated rates ranging from 2.5 to 5.0%. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The Bonds mature in serial and term fashion through October 2039 and certain bonds are subject to optional or mandatory redemption. The Bonds are secured by a pledge of the District's net revenues. The District is required to maintain net revenues equal to at least 110% of adjusted annual debt service.

(7) Long-Term Debt, continued

Bonds Payable, continued

2009 Series B Bonds, continued

As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds Principal	Interest	Total
2012	$ 670,000	$ 2,539,994	$ 3,209,994
2013	680,000	2,523,244	3,203,244
2014	690,000	2,506,244	3,196,244
2015	700,000	2,478,644	3,178,644
2016	720,000	2,450,644	3,170,644
2017-2021	3,875,000	11,754,519	15,629,519
2022-2026	4,315,000	10,873,594	15,188,594
2027-2031	4,790,000	9,878,925	14,668,925
2032-2036	15,460,000	8,168,250	23,628,250
2037-2041	21,255,000	2,723,500	23,978,500
Total	53,155,000	$ 55,897,558	$ 109,052,558
Less current portion	(670,000)		
Total non-current	$ 52,485,000		

2010 Series A Bonds

In October 2010, the Western Municipal Water District Facilities Authority issued $8,485,000 of Water Revenue Bonds, 2010 Series A, with original issuance premium of $1,266,470. The Bonds were issued to finance the acquisition and construction of certain water and wastewater facilities. Interest on the Bonds is paid semiannually at stated rates ranging from 2.0% to 5.0%. The original issuance premium is being amortized using the effective interest rate method over the life of the bonds. The bonds mature in serial fashion through October 2020.

(7) Long-Term Debt, continued

Bonds Payable, continued

2010 Series A Bonds, continued

As of June 30, 2011, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds Principal	Interest	Total
2012	$ -	$ 363,100	$ 363,100
2013	910,000	363,100	1,273,100
2014	945,000	344,900	1,289,900
2015	990,000	297,650	1,287,650
2016	1,030,000	248,150	1,278,150
2017-2021	4,610,000	517,550	5,127,550
Total	8,485,000	$ 2,134,450	$ 10,619,450
Less current portion	-		
Total non-current	$ 8,485,000		

2010 Series B Bonds

In October 2010, the Western Municipal Water District Facilities Authority issued $42,755,000 of Water Revenue Bonds, 2010 Series B, Taxable Build America Bonds, with original issuance discount of $255,745 to finance the acquisition and construction of certain water and wastewater facilities, such as the expansion of Western Water Recycling Facility. Interest on the Bonds is paid semiannually at stated rates ranging from 4.528% to 6.510%. The original issuance discount is being amortized using the effective interest rate method over the life of the bonds. The Bonds mature in serial and term fashion through October 2040 and certain bonds are subject to optional or mandatory redemption. Build America Bonds, created as part of the American Recovery and Reinvestment Act of 2009 (ARRA), are taxable securities that are subject to a subsidy payment from the United States Treasury equal to 35% of interest payable on the Build America Bonds. The subsidy payment does not constitute a full faith and credit guarantee of the Federal government, but are required to be paid under the ARRA. The subsidy is pledged to the repayment of the bonds.

(7) Long-Term Debt, continued

Bonds Payable, continued

2010 Series B Bonds, continued

As of June 30, 2011, the future annual maturities of the District's obligation are as follows:

Year Ending June 30,	Fixed-Rate Bonds Principal	Interest	Total
2012	$ -	$ 2,630,711	$ 2,630,711
2013	-	2,630,711	2,630,711
2014	-	2,630,711	2,630,711
2015	-	2,630,711	2,630,711
2016	-	2,630,711	2,630,711
2017-2021	1,270,000	13,153,554	14,423,554
2022-2026	6,990,000	12,167,479	19,157,479
2027-2031	8,415,000	9,963,339	18,378,339
2032-2036	10,230,000	7,148,135	17,378,135
2037-2041	15,850,000	3,198,689	19,048,689
Total	42,755,000	$ 58,784,751	$ 101,539,751
Less current portion	-		
Total non-current	$ 42,755,000		

Note Payable – Land

On April 26, 2004, the District acquired land in exchange for a note payable. Terms of the note provide that the District is to make ten annual payments of $24,667 including interest. The District made the first payment on April 26, 2004. The note has a stated interest rate of 5.0%. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 22,374	$ 2,293	$ 24,667
2013	23,493	1,175	24,668
Total	45,867	$ 3,468	$ 49,335
Less current portion	(22,374)		
Total non-current	$ 23,493		

(7) Long-Term Debt, continued

Note Payable – Headquarters Building

On September 28, 2009, the District obtained unsecured financing from a bank for the acquisition and development of its new headquarters building. Terms of the note provide that the District is to make semiannual payments of $676,200 including interest through October 2019. The District made the first payment on April 1, 2010. The note has a stated interest rate of 4.10%. As of June 30, 2011 the future annual maturities of the District's obligation are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 967,639	$ 384,761	$ 1,352,400
2013	1,007,719	344,681	1,352,400
2014	1,049,459	302,941	1,352,400
2015	1,092,927	259,472	1,352,399
2016	1,138,197	214,203	1,352,400
2017-2021	4,367,962	365,437	4,733,399
Total	9,623,903	$ 1,871,495	$ 11,495,398
Less current portion	(967,639)		
Total non-current	$ 8,656,264		

Note Payable – Other

On June 29, 2011, the District entered into a non-interest bearing note payable agreement to finance the acquisition of licensed software that it will use for its operations. Terms of the note provide that the District is to make 12 monthly payments in the amount of $12,329 commencing on August 1, 2011, followed by 12 monthly payments in the amount of $9,163 commencing on August 1, 2012 through July 1, 2013.

(8) Interest Rate Swap

The District has entered into an interest rate swap agreement in connection with its Facilities Authority's 2009 Series A Water Revenue Refunding Bonds. The District's objective with the swap agreement is to alter its exposure to interest-rate fluctuations, specifically rising interest rates that would negatively impact cash flows, by swapping an obligation to pay fixed rates for one that pays a floating rate. The table that follows summarizes the significant swap payment terms:

Summary of Swap Payment Terms

Description:	District	Counterparty
Original confirmation date	November 4, 2008	November 4, 2008
Original Notional Amount	$48,000,000	$48,000,000
Notional Reductions	Annually on 10/1	Annually on 10/1
Termination Date	October 1, 2032	October 1, 2032
Payment Dates	1st Calendar day of each Month	1st Calendar day of each Month
Payment Rate	2.96%	67% of 1-month USD LIBOR

Evaluation of Swap effectiveness

The District applies the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 prescribes the accounting and financial reporting required for derivative instruments that hedge indentified financial risks. If the derivative instrument is determined to be effective in reducing the indentified exposure, hedge accounting provides that changes in the fair value of the hedging instrument, in this instance the interest rate swap, be reported as either deferred inflows or deferred outflows in a government's statement of net assets. To evaluate the effectiveness of the swap, the Synthetic Instrument Method (SIM) prescribed by GASB No. 53 was employed for fiscal years ended June 30, 2011 and June 30, 2010. The resulting analyses reveal the swap is effective as a hedging instrument for both fiscal years. The fair value or marked-to-market value of the swap as of June 30, 2011 and 2010 is ($2,802,559) and ($3,931,920), respectively, which is the amount the District would owe as of this date should the swap be terminated. The change in fair market value of the swap in the amount of ($1,129,361) and $2,142,414 from June 30, 2010 and June 30, 2009 was recorded as a decrease and an increase, respectively, in deferred outflow; and a decrease and an increase, respectively, in the liability in the statement of net assets.

Credit Risk

The following table compares the counterparty credit ratings at June 30, 2011 against their threshold rating for termination:

Counterparty	Moody's	S&P	Fitch
Senior Debt	A2	A	A+
Threshold Amount	A3	A-	A-

(8) Interest Rate Swap, continued

Under the agreement, a swap termination event may occur if the Counterparty's credit rating falls to the threshold level and after 30 days notice collateral as required by the agreement is not delivered in favor of the District.

Interest Rate Risk

The District is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As LIBOR decreases, the District's net payment on the swap increases.

Basis Risk

The District is exposed to basis risk on the swap because the variable-rate payments received by the District are based on an index other than interest rates the District pays on hedged variable rate debt. At June 30, 2011, the District's 2009 Series A Bonds, which are hedged by the swap, had a weighted average variable rate of 0.19%. As of June 30, 2011, the current rate on the 2009A Bonds was 0.03% and the current rate of 67% of one-month USD LIBOR was 0.12%, resulting in an approximate 9 basis point gain for the District.

Termination Risk

The swap may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. If at the time of termination, the swap is in a liability position, the District would be obligated to pay the counterparty the liability position. The District has established policies to limit its termination liability payment risk to a predetermined percentage of its available reserves. The swap termination value at June 30, 2011 was within these limits.

(9) Invested in Capital Assets, net of Related Debt

The balance at June 30 consists of the following:

	2011	2010
Capital assets not being depreciated	$ 112,004,126	$ 124,265,856
Capital assets being depreciated, net	242,295,699	209,189,857
Due to other governmental agencies	(386,175)	(578,836)
Bonds payable	(108,067,421)	(81,980,278)
Notes payable	(9,927,683)	(10,620,234)
Invested in capital assets, net of related debt	$ 235,918,546	$ 240,276,365

(10) Property Taxes and Sale of a Receivable

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was $1,343,235.

Authorized with the 2010 fiscal year State of California budget package, the State of California Proposition 1A Securitization Program (Securitization Program) was instituted by the California Statewide Communities Development Authority (California Communities), a joint-powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their State of California Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the State of California Proposition1A receivables and issued bonds (Prop 1A Bonds) to provide California local governmental agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the California local governmental agencies equaled 100% of the amount of the property tax reduction. All transaction costs of the issuance and interest were paid by the State of California. Participating California local governmental agencies have no obligation on the bonds and no credit exposure to the State of California. The District participated in the Securitization Program and accordingly property tax revenue has been recorded in the same manner as if the State of California had not exercised its rights under State of California Proposition 1A. The receivable sale proceeds were equal to the book value of the property tax reduction for each agency and, as a result, no gain or loss was recorded to recognize these proceeds.

(11) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan (the Plan). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Plan are required to contribute 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.5% at age 55 Risk Pool Retirement Plan for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2011 was 7.062%. For the fiscal year ended June 30, 2012, the rate is set at 12.572%. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. In fiscal year 2004-05, the

(11) Defined Benefit Pension Plan, continued

District made a prepayment to CalPERS in the amount of $3,144,154, which is being amortized over a nine year period. This has resulted in a negative net pension obligation (NPO) which is an asset recorded in the District's statements of net assets. The prepaid balance was $184,924 and $410,102 at June 30, 2011 and 2010, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2011, the District's annual pension cost (APC) of $1,711,119 for CalPERS was equal to the annual required contribution (ARC) of $1,485,941 plus $225,178 which is from the net of the amortization of the prepaid CalPERS contribution less investment income computed on the prepaid contribution.

The required employer contribution rate was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, duration of service, and type of employment, and (c) 3.00% inflation, (d) 3.25% payroll growth, and (e) individual salary growth using 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%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value).

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level of percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% 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.

In August 2004, the District made a $3.1 million prepayment to PERS in order to reduce its employer rate to zero for both fiscal years 2005 and 2006. This interest bearing side fund was initially set to be amortized over 12 years to offset future employer contributions. Since its establishment, the side fund has had two lump sum reductions resulting from significant events. The two events were 1) in November 2005, Murrieta County Water District (MCWD) was merged into Western Municipal Water District, and since the PERS asset pool that MCWD was in was not funded at the same level as the District's, a lump sum transfer was made from the side fund to correct this. 2) In October 2007, the District's PERS benefit plan changed from 2.0% at 55 years old to 2.5% at 55 years old. The side fund was consequently reduced to bring the District's funding level to match that of the new plan's asset pool. The side fund balances at June 30, 2011 and 2010 were $184,924 and $410,102, respectively.

As is the case with most retirement systems, CalPERS is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the Retirement System depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could impact the financial condition of the Retirement System and the District's required contribution to the Retirement System.

(12) Other Post-Employment Benefits

Plan Description

The District is the Plan Administrator for the Western Municipal Water District Retirement Medical Benefits Plan (the Plan). The Plan was established effective June 15, 2006, and is a single employer defined benefit plan to provide advance funding for medical post employment health care benefits to eligible employees and eligible dependents in accordance with plan provisions. Plan assets are accumulated and benefits are paid from a voluntary employees' beneficiary association (VEBA) trust established by the District. The Plan does not issue a stand-alone financial report.

Eligible participants for the plan are based on four groups:

a. Group 1 are classified employees hired on or before December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least twelve (12) years of service. The District provides benefits for the employee and spouse.

b. Group 2 are classified employees hired after December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least fifteen (15) years of service. The District provides benefits for the employee only.

c. Group 3 are non-classified employees hired on or before December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee and spouse.

d. Group 4 are non-classified employees hired after December 18, 2002, who are at least fifty-five (55) years old at retirement and have completed at least ten (10) years of service. The District provides benefits for the employee only.

As of fiscal year ended June 30, 2011, there were 23 employees and 6 Board members who had retired and were eligible for Plan benefits.

Funding Policy and Annual Cost

Plan members do not contribute to the plan. The contribution requirement of the District is established and may be amended by the District's Board of Directors. The District contributes to the VEBA trust an amount equal to the annual required contribution (ARC), which is 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Since the District has contributed an amount equal to the ARC each year, the net obligation to the plan is zero. The ARC for fiscal years ended June 30, 2011 and 2010 were $590,922 and $491,418, respectively. The ARC is derived from a normal cost of $483,240 and $432,591 and a 30-year level-dollar amortization cost component of $107,752 and $58,827 for the fiscal years ended June 30, 2011 and 2010, respectively. The VEBA trust paid insurance premiums on behalf of retired participants in the amounts of $239,971 and $219,076 for the fiscal years ended June 30, 2011 and 2010, respectively.

(12) Other Post-Employment Benefits, continued

Funding Status and Funding Progress

The funded status of the plan as of June 30, 2010 was as follows:

Actuarial accrued liability (AAL)	$	9,223,686
Actuarial value of plan assets		7,529,501
Unfunded actuarial accrued liability (UAAL)	$	1,694,185
Funded ratio (actuarial value of plan assets/AAL)		81.6%
Covered Payroll (active plan members)	$	8,091,122
UAAL as a percentage of covered payroll		20.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about 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.

Actuarial Methods and Assumptions

In the June 30, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.0 % investment rate of return compounded annually (net of administrative expenses), and a medical inflation rate of 8.5% per annum graded down each year in 0.5% increments to an ultimate rate of 4.5%.

Funding Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (AVA/AAL)	Annual Covered Payroll	UAAL as a % of Covered Payroll
6/30/2007	$ 6,280,781	$ 7,207,526	$ 926,745	87.1%	$ 5,627,438	16.5%
6/30/2010	7,529,501	9,223,686	1,694,185	81.6%	8,091,122	20.9%

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2011, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,000,000, combined single limit at $2,000,000 per occurrence. ACWA/JPIA purchased additional excess coverage layers: $60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.

- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $50 million per occurrence, subject to a $25,000 deductible per occurrence.

- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment.

- Public officials' personal liability up to $1,000,000 each occurrence, with an annual aggregate of $20,000,000 per each elected/appointed official to which this coverage applies, subject to the terms of the policy.

- Workers' compensation insurance up to California statutory limits of $1,000,000 for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended June 30, 2011 and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2011 and 2010.

(14) Commitments and Contingencies

Joint Ventures

The District participates in the following joint ventures with other districts and agencies for various water and wastewater projects and operating facilities in Southern California.

(14) Commitments and Contingencies, continued

Chino Basin Desalter Authority

The District joined the Chino Basin Desalter Authority (CDA) in November 2008. Working in partnership with two CDA partners, the City of Ontario and Jurupa Community Services District, the District proposes to increase water supplies from the Chino Basin by expanding the capacity of the Chino II Desalter from 10 million gallons per day (MGD) to 20 MGD. In May 2009, the District received a $4.5 million grant from the American Reinvestment and Recovery Act of 2009. As expansion partners, the District, the City of Ontario, and Jurupa Community Services District will be responsible for funding the remaining costs of the $112 million project. The total budgeted for 2011-12 is $13,299,122 and is proposed to be funded by the General District Reserve Funds and bond proceeds. Total project costs are estimated to be $38,347,000 for the District through fiscal year 2014.

The District became a voting member of the CDA on September 22, 2011 through a contribution of $3,163,712. The District's participation in the CDA will be accounted for as a Joint Venture without an equity interest.

Western Riverside County Regional Wastewater Authority

Western Riverside County Regional Wastewater Authority (the Authority) was formed in 1992 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 of powers common to public agencies, for the purpose of constructing, maintaining, operating, and managing facilities for the collection, transmission, treatment and disposal of wastewater, the reclamation of wastewater, and the use of reclaimed wastewater for any beneficial purpose.

The five-member agencies are the Home Gardens Sanitary District, Western Municipal Water District, City of Norco, Santa Ana Watershed Project Authority, and Jurupa Community Services District. The Authority is governed by a ten member Board of Directors.

The Authority owns and operates an 8.00 million gallons per day (MGD) tertiary wastewater treatment plant in Riverside County. The member agencies support the operating costs and capital costs through fixed and variable rates established by the Authority's Board of Directors.

The plant's capacity is owned by member agencies as follows:

Member Agencies	Million Gallons per Day (MGD)
Western Municipal Water District	1.93
Jurupa Community Services District	3.25
City of Norco	2.20
Home Gardens Sanitary District	0.62
Santa Ana Watershed Project Authority	0.00
	8.00

(14) Commitments and Contingencies, continued

As of June 30, the Authority had assets, liabilities and net assets as follows:

	2011	2010
Total assets	$ 46,634,227	$ 46,711,065
Total liabilities	$ 6,075,856	$ 6,332,724
Total net assets	$ 40,558,371	$ 40,338,341

Since July 1, 1998, Western Municipal Water District has been responsible for the administration and operations of the Authority. Separate financial statements of the Authority may be obtained at Western Municipal Water District, 14205 Meridian Parkway, Riverside, CA 92518.

Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority (SAWPA) was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control and protection in the Santa Ana River Watershed. SAWPA is composed of five water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agencies. Each participating agency appoints two commissioners to SAWPA to form an oversight committee of ten. Equal contributions are made by each member agency for administration and contributions based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by contributions based on the general or specific nature of the project or study. Financial data is available at the District's main office.

Financial information for the operation of SAWPA for the fiscal years ended June 30, are as follows:

	2011	2010
Total assets	$ 178,336,846	$ 184,373,117
Total liabilities	$ 115,484,904	$ 120,555,903
Total net assets	$ 62,851,942	$ 63,817,214
Total revenues	$ 18,111,314	$ 21,211,683
Total expenses	(19,076,586)	(19,556,378)
Net change in net assets	$ (965,272)	$ 1,655,305

(14) Commitments and Contingencies, continued

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to $5,737,043 in open construction contracts as of June 30, 2011. These include:

Project	Approved Contract	Payments To Date	Remaining Commitment
Operations Expansion Project W-193	$ 46,485,587	$ 41,835,228	$ 4,650,359
Chino Desalter Project W-198	507,672	212,952	294,720
Headquarters Build-out Project W-213	142,412	19,523	122,889
Western Water Recycling Facility Phase 2 W-174F	1,171,372	502,298	669,074
Total	$ 48,307,043	$ 42,570,001	$ 5,737,042

Murrieta Service Area

Wastewater treatment within the Murrieta Service area is provided by Rancho California Water District's (RCWD) Santa Rosa Wastewater Reclamation Facility (Santa Rosa Facility). Besides the District's Murrieta Service Area, the Santa Rosa Facility serves the wastewater customers of RCWD and those of neighboring districts. RCWD has determined that the Santa Rosa Facility will need improvements/enhancements in order to meet anticipated demand. The District has been approached by RCWD to discuss its willingness to share in paying for a portion of the proposed costs and to establish the District's obligations with respect to cost overruns in connection with past construction of the Santa Rosa Facility. The District's share in these costs could result in a District contribution of up to approximately $15 million payable over several years. The District has not determined whether it will participate in improving the Santa Rosa Plant and is evaluating its obligations with respect to cost overruns. Any obligations incurred by the District with respect to cost overruns or the expansion of the Santa Rosa Facility would be paid for with connection fees and increased rates from within the Murrieta Service Area and by using certain reserves and other amounts attributable to the Santa Rosa Facility.

(15) Implementation of New Accounting Principles

The District implemented GASB Statement No. 59, *Financial Instruments Omnibus*, for the year ended June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain instruments and external investment pools. Specifically, GASB 59 provides financial reporting guidance by doing the following:

- Emphasizing the applicability of SEC requirements to certain external investment pools (known as 2a7-like pools) to provide users more consistent information on qualifying pools

- Addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting

(15) Implementation of New Accounting Principles, continued

- Applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, to unallocated insurance contracts to improve the consistency of reporting by pension and other postemployment benefit plans

As a result of implementing this standard, the District has recorded interest costs on taxable Build America Bonds gross of federal reimbursement in the amount of $621,505 as of June 30, 2011, as discussed above in the Capital Asset section of Footnote 1—Reporting Entity and Summary of Significant Accounting Policies.

The District implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* for the year ended June 30, 2011. The Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The standard incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The implementation of this statement had no material impact on the District's financial statements.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

GASB has issued pronouncements that have an effective date that may impact future financial statement presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements in which a government (the transferor) engages a company or another government (the operator) to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor's behalf. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. It is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, this standard amends the criteria for blending—reporting component units as if they were part of the primary government—in certain circumstances. This statement is effective for financial statements for periods beginning after June 15, 2012, with earlier application encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

STATISTICAL SECTION

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Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements 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

The 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 compensations 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.

TABLE I - NET ASSETS BY COMPONENT

Last Nine Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Invested in capital assets, net of related debt	$ 112,471,840	$ 100,216,221	$ 103,243,603	$ 154,768,447	$ 168,574,254	$ 187,971,684 [1]	$ 215,778,402 [1]	$ 240,688,039	$ 235,918,546
Restricted for debt service	7,153,406	6,884,378	6,650,184	6,463,109	-	155,331	144,619	144,619	144,619
Restricted for investments	23,083,445	29,337,887	38,685,499	40,153,846	31,698,838	26,556,373	28,974,102	29,118,573	26,151,035
Unrestricted	70,774,126	95,897,145	101,312,682	77,929,380	93,838,974	95,813,330	79,858,248	78,109,273	85,761,154
Total Net Assets	$ 213,482,817	$ 232,335,631	$ 249,891,968	$ 279,314,782	$ 294,112,066	$ 310,496,718	$ 324,755,371	$ 348,060,504	$ 347,975,354
Percentage Increase (Decrease)		9%	8%	12%	5%	6%	5%	7%	-0.02%

[1] Fiscal years 2008 and 2009 balances have been retrospectively restated for the implementation of GASB No. 51.

Source: Western Municipal Water District

TABLE II - CHANGES IN NET ASSETS

Last Nine Fiscal Years

Fiscal Year	Operating Revenue [1]	Operating Expense [2]	Operating Income/(Loss)	Total Non-Operating Revenue/ (Expense)	Income/(Loss) Before Capital Contributions	Capital Contributions [4]	Change in Net Assets
2011	$ 79,471,048	$ 100,249,983	$ (20,778,935)	$ 14,874,129	$ (5,904,806)	$ 5,819,656	$ (85,150)
2010	79,126,995	100,280,997	(21,154,002)	17,625,069	(3,528,933)	26,834,066	23,305,133
2009	75,480,412	97,167,792 [3]	(21,687,380)	21,652,217	(35,163)	14,293,816	14,258,653
2008	72,005,893	90,548,426 [3]	(18,542,533)	24,721,336	6,178,803	7,304,570	13,483,373
2007	71,774,787	83,794,594	(12,019,807)	20,140,134	8,120,327	6,681,243	14,801,570
2006	58,643,034	70,497,736	(11,854,702)	30,602,563	18,747,861	10,674,953	29,422,814
2005	47,651,008	57,962,469	(10,311,461)	13,904,315	3,592,854	13,963,483	17,556,337
2004	55,054,673	64,200,273	(9,145,600)	12,914,655	3,769,055	15,083,759	18,852,814
2003	49,142,127	56,523,924	(7,381,797)	22,843,726	15,461,929	12,716,444	28,178,373

[1] See Table III for details of revenues.

[2] See Table IV for details of expenses.

[3] Balance has been retrospectively restated for the implementation of GASB No. 51.

[4] Capital contributions include water and sewer connection fees (capacity charges) and contributed assets from developers, as well as grant proceeds. Being dependent on the development interest within the retail service area, these amounts naturally fluctuate from year to year.

Source: Western Municipal Water District

TABLE III - REVENUES BY SOURCE
(Excluding Capital Contributions and Special Items)
Last Ten Fiscal Years

Fiscal Year	Operating Revenues						Non-Operating Revenues					Combined Revenues
	Water Sales	Water Service	Wastewater Disposal	Contractual Services	Other Operating	Total Operating Revenue	Property Taxes	Investment Earnings	Capacity Rights Sales	Other Non-Operating	Total Non-Operating Revenues	
2011	$ 56,473,710	$ 10,477,058	$ 10,862,351	$ 1,569,409	$ 88,520	$ 79,471,048	$ 15,106,222	$ 3,802,289	$ 997,710	$ 1,008,052	$ 20,914,272	$ 100,385,320
2010	56,223,768	9,127,539	10,723,639	748,437	2,303,612	79,126,995	16,262,545	6,826,692	163,118	2,152,033	25,404,388	104,531,383
2009	55,667,804	7,776,582	8,161,485	2,532,882	1,341,659	75,480,412	17,853,043	6,378,492	280,376	849,205	25,361,116	100,841,528
2008	53,588,433	6,711,049	7,931,271	2,250,140	1,525,000	72,005,893	17,704,142	9,415,423	606,424	900,532	28,626,521	100,632,414
2007	53,192,559	6,074,097	8,652,596	2,515,810	1,339,725	71,774,787	16,419,757	6,790,364	403,446	1,197,962	24,811,529	96,586,316
2006 [1]	43,191,741	4,934,235	6,525,941	3,027,621	963,496	58,643,034	7,442,255 [2]	1,203,183	195,235	1,213,030	10,053,703	68,696,737
2005	35,915,647	3,997,064	4,485,883	3,209,674	42,740	47,651,008	4,898,836 [2]	6,844,838	1,345,921	2,619,497	15,709,092	63,360,100
2004	43,776,828	3,625,705	3,526,382	3,929,826	195,932	55,054,673	10,059,670	(134,800)	2,470,520	2,184,251	14,579,641	69,634,314
2003	37,001,266	5,673,839	3,357,896	1,974,209	1,134,917	49,142,127	8,748,823	6,661,485	6,032,450	2,209,601	23,652,359	72,794,486
2002	38,864,004	4,254,424	2,728,839	2,341,096	1,662,239	49,850,602	7,526,315	4,617,558	3,564,592	236,321	15,944,786	65,795,388

[1] All categories with the exception of Contractual Services and Capacity Rights Sales have been impacted due to the consolidation of the Murrieta County Water District into Western effective November 27, 2005, and the transfer of the Arlington Desalter from the Santa Ana Watershed Project Authority effective December 1, 2005.

[2] Decrease due to ERAF shift of $6.7 million in property tax revenue to the State.

Source: Western Municipal Water District

TABLE IV - EXPENSES BY FUNCTION

Last Ten Fiscal Years

Fiscal Year	Operating Expenses									Total Non-Operating Expenses	Combined Expenses
	Purchased Water	Pumping	Transmission & Distribution	Admin and General	Contractual Services	Depreciation	Other	Wastewater Disposal	Total Operating		
2011	$ 51,890,617	$ 3,853,402	$ 6,234,543	$ 11,456,106	$ 1,528,335	$ 10,262,842	$ 5,937,670	$ 9,086,468	$ 100,249,983	$ 6,040,143	$ 106,290,126
2010	51,859,715	3,495,685	6,533,961	10,714,044	2,745,281	8,410,181	7,503,236	9,018,894	100,280,997	7,779,319 [3]	108,060,316
2009	51,655,168	3,727,019	5,611,231	11,328,694	2,742,866	7,035,161 [2]	6,992,836 [2]	8,074,817	97,167,792	3,708,899	100,876,691
2008	50,897,920	3,246,535	4,867,610	10,234,890	2,200,289	6,431,717 [2]	4,858,647 [2]	7,810,818	90,548,426	3,905,185	94,453,611
2007	49,496,922	2,637,091	3,843,680	8,469,239	2,515,810	5,933,388	3,143,603	7,754,861	83,794,594	4,671,395	88,465,989
2006 [1]	40,303,646	2,672,132	3,398,754	6,274,755	3,027,621	5,071,100	3,028,361	6,721,367	70,497,736	3,220,501	73,718,237
2005	34,442,427	1,806,219	1,950,989	6,074,707	3,209,674	4,098,388	3,093,901	3,286,164	57,962,469	1,804,777	59,767,246
2004	40,697,084	1,741,423	1,791,049	4,750,526	3,929,826	4,002,307	3,905,390	3,382,668	64,200,273	1,664,986	65,865,259
2003	34,118,164	1,709,996	1,661,059	7,349,989	1,974,209	3,431,843	3,586,492	2,692,172	56,523,924	808,633	57,332,557
2002	36,826,806	1,860,068	1,234,740	8,393,314	2,341,096	3,333,394	2,860,870	1,363,992	58,214,280	631,981	58,846,261

[1] All categories, with the exception of Contractual Services, have been impacted due to the consolidation of the Murrieta County Water District into Western effective November 27, 2005, and the transfer of the Arlington Desalter from the Santa Ana Watershed Project Authority effective December 1, 2005.

[2] Balance has been retrospectively restated for the implementation of GASB No. 51.

[3] The significant increase in fiscal year 2010 is primarily due to a $2.6 million greater interest expense resulting from the issuance of the District's 2010 A and B Revenue bonds in May 2009.

Source: Western Municipal Water District

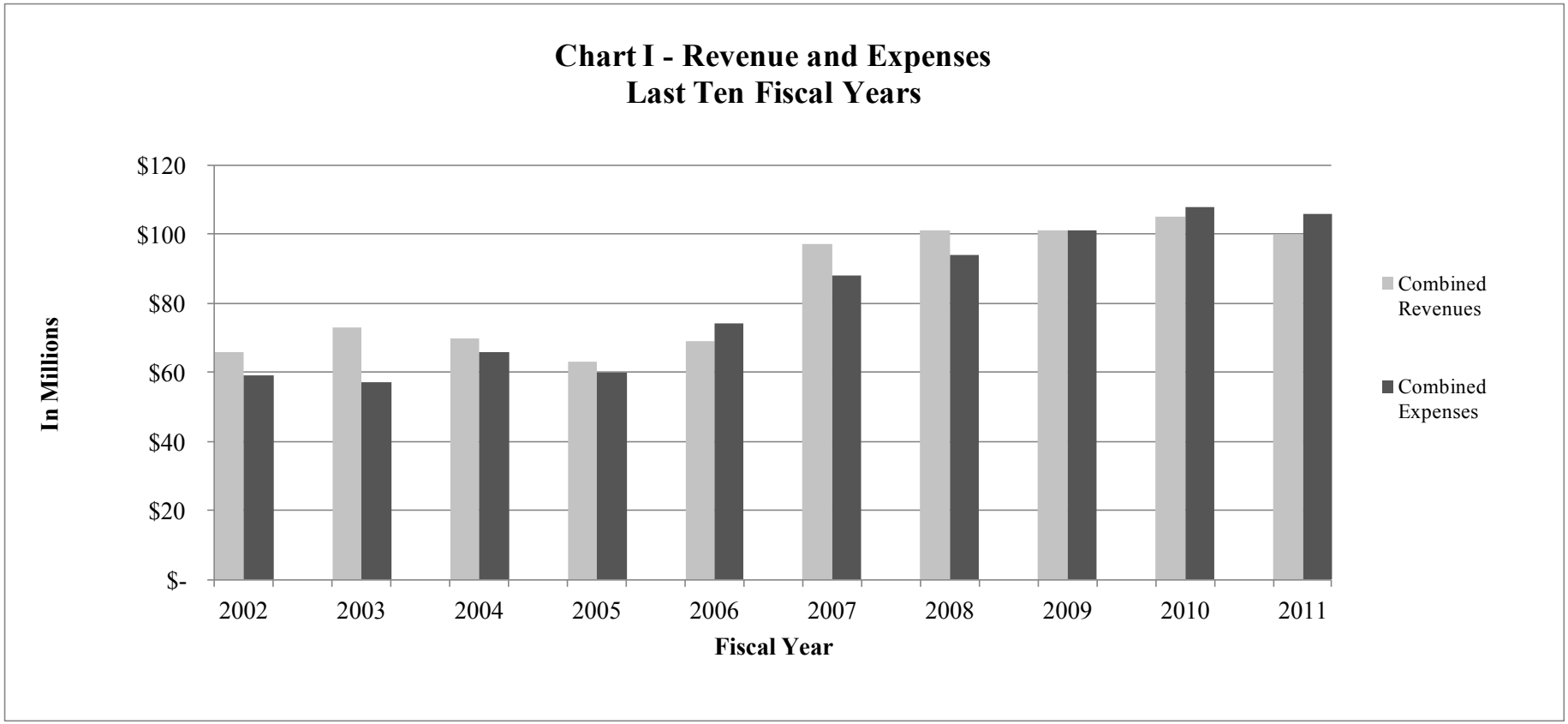


Chart I - Revenue and Expenses
Last Ten Fiscal Years
In Millions
$120
$100
$80
$60
$40
$20
$-
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Fiscal Year
Combined Revenues
Combined Expenses

Table V - Active Water Accounts by Meter Size

Last Ten Fiscal Years

Fiscal Year	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch & Greater	Total
2011	17,795	4,316	388	490	52	75	86	151	23,353
2010	17,820	4,325	393	506	52	76	61	75	23,308
2009	17,806	4,320	391	500	51	76	60	72	23,276
2008	17,680	4,309	386	461	48	74	59	66	23,083
2007	17,610	4,312	376	412	52	82	59	72	22,975
2006	17,113	4,236	349	372	56	90	62	59	22,337
2005	13,699	4,021	257	218	41	63	21	32	18,352
2004	12,694	3,977	250	202	41	61	21	31	17,277
2003	12,249	3,868	236	183	38	61	21	29	16,685
2002	11,326	3,763	212	139	33	54	17	20	15,564

Notes: 2,547 of the 3,985 additional water accounts during fiscal year 2006 were due to the consolidation of Murrieta County Water District with Western on November 27, 2005.

Source: Western Municipal Water District

Table VI – Retail Water Accounts by Type and Retail Wastewater Accounts

Last Ten Fiscal Years

Fiscal Year	Water Accounts			Wastewater Accounts
	Domestic	Agriculture	Total	
2011	23,211	142	23,353	8,149
2010	23,162	146	23,308	7,968
2009	23,131	145	23,276	7,935
2008	22,938	145	23,083	7,738
2007	22,778	197	22,975	7,494
2006	22,131	206	22,337	6,896
2005	18,153	199	18,352	4,021
2004	17,080	197	17,277	3,477
2003	16,489	196	16,685	3,284
2002	15,370	194	15,564	2,810

Notes: 2,547 of the 3,985 additional water accounts, and 1,862 of the 2,875 additional wastewater accounts during fiscal year 2006 were due to the consolidation of Murrieta County Water District with Western on November 27, 2005.

Source: Western Municipal Water District

Table VII – Water and Sewer Rates

Last Ten Fiscal Years

At June 30,	Fixed Monthly Base Rate Based on Meter Size								Monthly Usage Rate [1]	Monthly Sewer Rate [2]
	¾-Inch	1-Inch	1½-Inch	2-Inch	3-Inch	4-Inch	6-Inch	8-Inch		
2011	$ 20.44	$ 33.06	$ 66.13	$ 81.88	$ 99.19	$ 114.91	$ 130.67	$ 147.98	$ 57.36	$ 30.19
2010[3]	18.69	30.19	60.38	74.75	90.57	104.94	119.32	135.13	48.46	27.70
2009	18.69	30.19	60.38	74.75	90.57	104.94	119.32	135.13	48.46	25.40
2008	14.17	22.89	45.78	56.68	68.67	79.57	90.47	102.46	35.38	23.33
2007	13.00	21.00	42.00	52.00	63.00	73.00	83.00	94.00	32.48	21.40
2006	13.00	21.00	42.00	52.00	63.00	73.00	83.00	94.00	32.48	21.40
2005	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00
2004	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00
2003	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00
2002	13.00	18.00	19.00	32.00	36.00	42.00	48.00	54.00	32.48	20.00

Notes: The water meter and water rate information shown is for domestic customers (i.e., non-agricultural) residing in the District's retail service area that has the vast majority of customers (Riverside service area, Improvement District No. 1 / Power Zone 1).

[1] The rate shown is for an average monthly treated water consumption of 29 units. A unit is 100 cubic feet of water or 748 gallons. An average customer with a ¾" inch water meter will pay $77.80 per month ($20.44 fixed + $57.36 usage).

[2] The sewer rate information shown is for one EDU (equivalent dwelling unit) in the District's Lake Hills area.

[3] Water and sewer rates were increased effective September 1 and October 1, 2010, respectively.

Source: Western Municipal Water District

Table VIII – Principal Retail Water Customers

Fiscal Year Ended June 30, 2011

Customer Name	Water Deliveries in Acre Feet	Percentage of Water Deliveries
Riverside National Cemetery	1,163	4.6%
General Old Golf Course	519	2.1%
Village Nurseries	480	1.9%
Fresh & Easy Neighborhood Market	457	1.8%
The Kroger Company	347	1.4%
Altman Plants	324	1.3%
City of Riverside	310	1.2%
Riverside Unified School District	269	1.1%
Air Force Village	230	0.9%
Total Principal Customers	4,099	16.3%
Other Customers	21,125	83.7%
Total Retail Water Sales	25,224	100.0%

Source: Western Municipal Water District

Table IX - Wholesale Water Customer Deliveries

Fiscal Year Ended June 30, 2011

Water Agency	Water Deliveries in Acre Feet	Percentage of Water Deliveries
Elsinore Valley Municipal Water District	18,909	31.8%
Rancho California Water District	17,492	29.4%
City of Corona	13,787	23.2%
City of Norco	6,033	10.2%
Lee Lake Water District	2,740	4.6%
Eagle Valley Mutual Water District	359	0.6%
Box Springs Mutual Water Company	96	0.2%
City of Riverside	5	0.0%
Metropolitan Water District	3	0.0%
Total Wholesale Deliveries	59,424	100.0%

Source: Western Municipal Water District

Table X – Summary of Imported Water Rates
(dollars per acre-foot)

	Full Service		Interim Agricultural Program		Shift Seasonal Storage [1]			Long-Term Seasonal Storage	
Rates Effective	**Treated**	**Untreated**	**Treated**	**Untreated**	**Treated**	**Untreated**	**Reclaimed**	**Treated**	**Untreated**
Jan. 1, 2001	431	349	294	236	334	277	113	290	233
Jan. 1, 2002	431	349	294	236	345	288	113	290	233
Jan. 1, 2003 Tier 1 [2]	408	326	294	236				290	233
Jan. 1, 2003 Tier 2	489	407	n/a	n/a				n/a	n/a
Jan. 1, 2004 Tier 1	418	326	304	236				300	233
Jan. 1, 2004 Tier 2	499	407	n/a	n/a				n/a	n/a
Jan. 1, 2005 Tier 1	443	331	329	241				325	238
Jan. 1, 2005 Tier 2	524	412	n/a	n/a				n/a	n/a
Jan. 1, 2006 Tier 1	453	331	339	241				335	238
Jan. 1, 2006 Tier 2	549	427	n/a	n/a				n/a	n/a
Jan. 1, 2007 Tier 1	478	331	364	241				360	238
Jan. 1, 2007 Tier 2	574	427	n/a	n/a				n/a	n/a
Jan. 1, 2008 Tier 1	508	351	394	261				390	258
Jan. 1, 2008 Tier 2	606	449	n/a	n/a				n/a	n/a
Jan. 1, 2009 Tier 1	579	412	465	322				436	294
Jan. 1, 2009 Tier 2	695	528	n/a	n/a				n/a	n/a
Sep. 1, 2009 Tier 1	701	484	587	394				558	366
Sep. 1, 2009 Tier 2	781	564	n/a	n/a				n/a	n/a
Jan. 1, 2010 Tier 1	701	484	615	416				558	366
Jan. 1, 2010 Tier 2	811	594	n/a	n/a				n/a	n/a
Jan. 1, 2011 Tier 1	744	527	687	482				601	409
Jan. 1, 2011 Tier 2	869	652	n/a	n/a				n/a	n/a

[1] Discontinued effective January 1, 2003.

[2] MWD implemented a new two-tiered commodity rate structure effective January 1, 2003.

Source: Metropolitan Water District

Table XI - Water Sources (in acre-feet)

Last Ten Fiscal Years

Fiscal Year	Purchased									
	Domestic			Agriculture			Purchased Total	Wells	Desalter	Grand Total
	Treated	Untreated	Total	Treated	Untreated	Total				
2011	47,312	18,168	65,480	5,064	4,278	9,342	74,822	518	4,441	79,781
2010	51,961	17,882	69,843	6,849	4,451	11,300	81,143	785	5,100	87,028
2009	60,685	16,328	77,013	12,374	8,247	20,621	97,634	808	5,830	104,272
2008	64,923	18,630	83,553	15,177	7,215	22,392	105,945	395 [1]	6,407	112,747
2007	68,526	23,109	91,634	18,851	7,961	26,813	118,447	2,302	5,267	126,016
2006	57,236	18,751	75,987	14,588	7,552	22,140	98,127	1,181	3,249	102,557
2005	51,767	14,219	65,986	11,407	9,357	20,763	86,749			86,749
2004	55,074	19,945	75,019	19,329	13,018	32,347	107,366			107,366
2003	45,373	19,208	64,581	16,152	11,596	27,748	92,329			92,329
2002	45,213	18,710	63,922	16,739	12,529	29,268	93,190			93,190

[1] Well production in fiscal year 2008 decreased significantly due to operational constraints.

Source: Western Municipal Water District

Table XII – Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Revenue Bonds	Improvement Bonds	Loans	Total	Total Debt Per Capita[(1)]
2011	$ 144,605,378	$ 568,833	$ 13,755,692	$ 158,929,903	177.75
2010	93,940,413	662,201	14,990,119	109,592,733	124.71
2009	95,493,936	745,569	4,975,884	101,215,389	114.57
2008	43,073,129	888,937	5,902,752	49,864,818	56.97
2007	44,151,477	967,305	7,346,574	52,465,356	61.50
2006	45,129,825	1,040,673	8,749,142	54,919,640	66.50
2005	46,108,173	1,109,041	6,965,461	54,182,675	67.91
2004	47,086,521	1,172,409	7,420,675	55,679,605	72.15
2003	48,064,868	1,230,777	7,666,896	56,962,541	76.60
2002	-	1,284,145	11,130,322	12,414,467	17.39

Notes: Details regarding the District's outstanding debt can be found in the notes to the basic financial statements.

(1) Calculated by dividing the total outstanding debt by the District's estimated service area population.

Source: Western Municipal Water District

Table XIII – Revenue Bond Coverage

Last Nine Fiscal Years

(The District did not have Revenue Bonds outstanding in fiscal year to 2002)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
GROSS REVENUE									
Water Sales	$ 37,001,266	$ 43,776,828	$ 35,915,647	$ 43,191,741	$ 53,192,559	$ 53,588,433	$ 55,667,804	$ 56,223,768	$ 56,473,710
Water Service	5,673,839	3,625,705	3,997,064	4,934,235	6,074,097	6,711,049	7,776,582	9,127,539	10,477,058
Wastewater Service	6,714,883	3,526,382	4,485,883	6,525,941	8,652,596	7,931,271	8,161,485	10,723,639	10,862,351
Ad Valorem Taxes (1)	8,748,823	10,059,670	4,898,836	7,442,255	16,271,059	17,622,207	17,789,635	16,254,320	15,048,059
Interest Income	6,661,485	5,496,142	7,523,894	4,578,251	6,612,647	9,292,695	6,337,190	6,685,940	3,671,725
Connection Fees - Water	3,595,299	2,521,457	3,774,690	4,296,543	3,100,050	1,454,500	896,624	290,477	236,080
Connection Fees - Wastewater	136,296	157,004	4,018,926	4,001,963	1,219,750	2,395,553	1,316,970	6,153,635	276,856
Federal, state and local capital grants	-	-	-	192,010	500,785	626,083	1,551,562	3,149,581	3,284,896
Other Revenue	7,994,190	8,780,529	7,217,832	5,399,382	5,456,943	5,282,096	5,004,122	5,367,200	5,042,186
Total	76,526,081	77,943,717	71,832,772	80,562,321	101,080,486	104,903,887	104,501,974	113,976,099	105,372,920
MAINTENANCE AND OPERATION COSTS									
Administration	7,349,989	4,750,526	6,074,707	6,274,755	8,469,239	10,234,890	11,328,694	10,714,044	11,456,106
Purchased Water	34,118,164	40,697,084	34,442,427	40,303,646	49,496,922	50,897,920	51,655,168	51,859,715	51,890,617
Water Operations	6,111,392	6,053,685	6,043,360	8,744,569	8,810,775	10,809,412	12,941,548	14,452,967	14,832,096
Wastewater Operations	2,692,172	3,382,668	3,286,164	6,721,367	7,754,861	7,810,818	8,074,817	9,018,894	9,086,468
Other Expenses	3,194,364	5,666,594	4,388,684	4,273,745	5,625,607	5,918,202	7,951,851	8,718,326	5,013,535
Contract Resource Obligations	354,592	941,544	903,466	1,922,681	1,986,239	1,974,146	829,532	1,223,458	731,894
Building Loan	-	-	-	-	-	-	-	446,943	1,342,877
Total	53,820,673	61,492,101	55,138,808	68,240,763	82,143,643	87,645,388	92,781,610	96,434,347	94,353,593
Net Revenues	22,705,408	16,451,616	16,693,964	12,321,558	18,936,843	17,258,499	11,720,364	17,541,753	11,019,327
Series of 2002 A Bonds [2]	470,017	1,866,340	2,041,545	2,145,227	2,513,341	3,041,456	2,640,029	-	-
Series of 2009 A&B Bonds [2]	-	-	-	-	-	-	-	5,967,575	5,753,746
Series of 2010 A&B Bonds [2]	-	-	-	-	-	-	-	-	1,337,200
Total	470,017	1,866,340	2,041,545	2,145,227	2,513,341	3,041,456	2,640,029	5,967,575	7,090,946
DEBT SERVICE COVERAGE	48.31	8.81	8.18	5.74	7.53	5.67	4.44	2.94	1.55

[1] Fiscal year 2005 and 2006 each had a $6.7 million shift of property tax revenue to the State.

[2] Actual debt service figures on bonds from fiscal year 2004 through 2009.

Source: Western Municipal Water District

Table XIV – Direct and Overlapping Debt
As of June 30, 2011

2010-11 Assessed Valuation:	$65,898,076,156 (1)	
Redevelopment Incremental Valuation:	15,932,509,093	
Adjusted Assessed Valuation:	$49,965,567,063	
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 6/30/11
Metropolitan Water District	2.77%	$6,301,906
Riverside City Community College District	79.14	187,340,514
Alvord Unified School District	99.985	267,125,879
Corona-Norco Unified School District	95.939	246,843,755
Jurupa Unified School District	99.782	52,892,415
Murrieta Valley Unified School District	12.859	22,446,063
Riverside Unified School District	99.991	154,626,082
Other School Districts	Various	2,222,901
City of Riverside	97.353	16,199,539
Western Municipal Water District	**100**	**0**
Riverside County Flood Control District, Zone No. 3 Benefit Assessment District	33.403	896,871
Community Facilities Districts	Various	1,038,585,906
City and Special District 1915 Act Bonds	Various	47,656,735
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$2,043,138,566
Ratios to 2010-11 Assessed Valuation:		
Direct Debt	**0.00%**	
Total Direct and Overlapping Tax and Assessment Debt	3.10%	
OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	34.17%	$238,005,298
Riverside County Pension Obligations	34.165	125,366,759
Riverside County Board of Education Certificates of Participation	34.165	2,107,981
Alvord Unified School District Certificates of Participation	99.985	2,026,757
Corona-Norco Unified School District Certificates of Participation	95.939	29,803,450
Jurupa Unified School District Certificates of Participation	99.782	6,984,740
Lake Elsinore Unified School District Certificates of Participation	43.526	16,670,458
Murrieta Unified School District General Fund Obligations	12.859	8,171,252
Riverside Unified School District Certificates of Participation	99.991	14,808,667
Other School District General Fund Obligations	Various	3,952,174
City of Corona General Fund Obligations	99.988	67,806,862
City of Lake Elsinore General Fund Obligations	59.787	7,990,533
City of Moreno Valley General Fund Obligations	0.433	334,276
City of Murrieta General Fund Obligations	14.949	2,086,133
City of Riverside General Fund Obligations	97.353	205,750,698
City of Riverside Pension Obligations	97.353	98,638,060
Other City and Special District General Fund Obligations	Various	312,538
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$830,816,636
Less:	Riverside County supported obligations	
	City of Corona supported obligations	
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$823,301,116
TOTAL DIRECT DEBT		**$0**
TOTAL GROSS OVERLAPPING DEBT		$2,873,955,202
TOTAL NET OVERLAPPING DEBT		$2,866,439,682
GROSS COMBINED TOTAL DEBT		$2,873,955,202
NET COMBINED TOTAL DEBT		$2,866,439,682

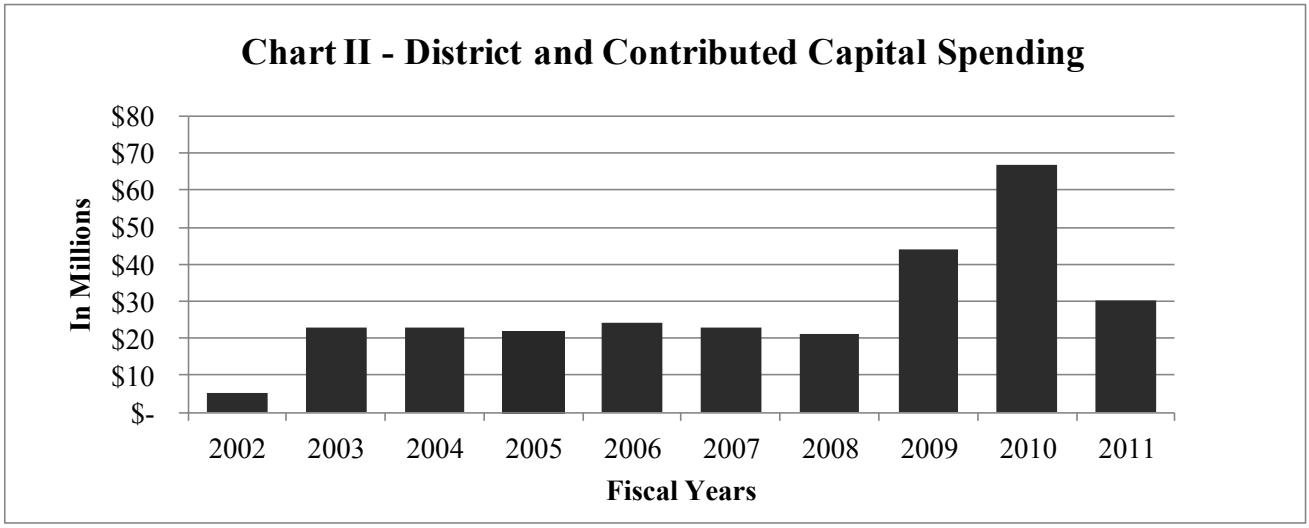
(1) Excludes assessed valuation of additional fringe areas of the district.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

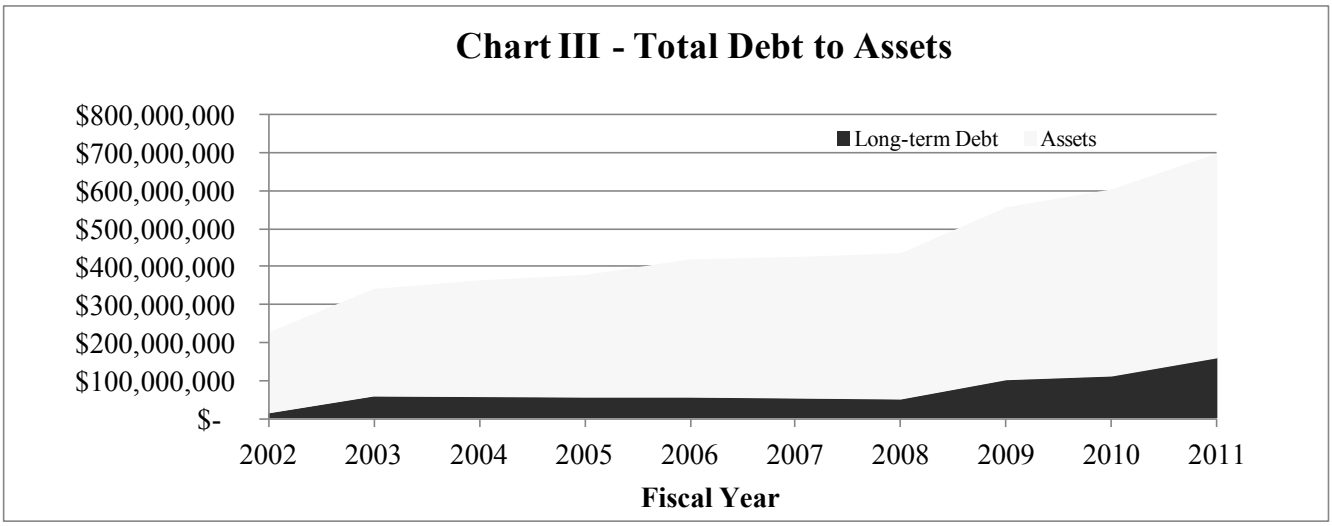
Ratios to Adjusted Assessed Valuation:	
Gross Combined Total Debt	5.75%
Net Combined Total Debt	5.74%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: $0

Source: California Municipal Statistics, Inc.



Source: Western Municipal Water District



Source: Western Municipal Water District

Table XV – Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Assessed Valuation [1] Western Service Area	Estimated Svc. Area Population	County Population	Personal Income [2] in billions	County Per Capita Personal Income [3]	County Unemployment Rate (June)
2011	$ 65,848,324,548	894,100	2,217,778	$ 28.4	$ 31,796	14.4
2010	67,433,097,932	878,800	2,179,692	27.2	30,921	14.5
2009	74,502,727,975	883,400	2,107,653	27.2	30,772	14.0
2008	73,840,164,058	875,300	2,088,322	26.3	30,070	8.3
2007	63,958,883,602	853,100	2,034,840	25.2	29,560	5.9
2006	52,494,938,437	825,800	1,966,607	23.4	28,730	5.1
2005	45,054,049,101	797,900	1,885,627	21.9	26,342	5.4
2004	39,862,318,543	771,700	1,805,519	20.4	25,337	6.1
2003	36,293,267,447	743,600	1,725,890	18.8	24,814	6.8
2002	32,843,953,996	713,800	1,653,529	17.7	24,797	6.4

[1] Assessed value includes both secured and unsecured property.

[2] Personal income for the service area is calculated by multiplying the estimated population in the District's service area by the County's per capita personal income projection.

[3] County Per Capita Personal Income for fiscal years 2008, 2009, 2010 and 2011 are estimated since figures are not available.

Source: Riverside County Auditor-Controller for the assessed valuation; California Department of Finance for the county population estimates; U.S. Bureau of Economic Analysis for county per capita personal income; and California Employment Development Department for the county unemployment rate.

Table XVI – Principal Employers in the County of Riverside

Fiscal Year Ended June 30, 2011

Employer Name	Fiscal Year 2011	
	No. of Employees	Percentage of Total County Labor Force
County of Riverside	18,000	2.3%
March Air Reserve Base	8,525	1.1%
Stater Bros. Markets	6,902	0.9%
University of California Riverside	4,907	0.6%
Corona-Norco Unified School District	4,400	0.6%
Pechanga Resort and Casino	4,000	0.5%
Riverside Unified School District	3,900	0.5%
Kaiser Permanente Medical Center	3,500	0.5%
Riverside Commuity College	3,141	0.4%
Abbott Vascular	3,000	0.4%
Total	60,275	7.8%
Total Labor Force		769,700

Notes: Data is for the County of Riverside. The District is located whithin the County.

Sources: The Business Press 2011 Book of Lists and the State of California Employment Development Department

Table XVII – District Employees by Function

Filled Positions Only at June 30

	2006	2007	2008	2009	2010	2011
Management	4	5	5	5	5	7
Human Resources & Administration	7	9	10	11	13	8
Engineering	14	13	15	14	15	12
Finance	7	7	8	8	6	8
Billing/Customer Service	3	5	5	6	8	5
Public Affairs	5	5	5	5	4	4
Water Resources	1	2	2	3	5	5
Operations	55	59	60	60	59	56
Legislative Affairs	1	1	1	1	2	1
Information Systems	3	5	5	6	5	6
Total	100	111	116	119	122	112

Notes: All managers are included with their divisions. Temporary employees are not included. Data for prior years is not available.

Source: Western Municipal Water District

Table XVIII – Operating and Capital Indicators

Last Seven Fiscal Years

	2005	2006	2007	2008	2009	2010	2011
Number of Employees	88	100	111	116	119	122	112
Service Area in acres	326,000	337,000	337,000	337,000	337,000	337,000	337,000
Service Area in square miles	510	527	527	527	527	527	527
Assessed Valuation (billion)	$45	$52	$64	$74	$75	$67	$66
Population Served (approx.)	800,000	826,000	853,000	875,000	883,000	879,000	894,000
Miles of Water Pipeline	536	588	591	591	623	623	621
Number of Storage Tanks	34	38	38	38	38	36	36
Max Storage Capacity (million gal.)	76.5	80.2	80.2	80.7	87.3	93.7	93.7
Sewer Treatment Plants Owned	1	1	1	1	1	1	1
Sewer Treatment Capacity (MGD)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Avg. Flows into Sewer Plant (MGD)	0.5	0.5	0.5	0.8	0.8	0.8	0.9
Number of Lift Stations	13	18	18	20	22	22	20

Note: Data for prior fiscal years is not available.

Source: Western Municipal Water District

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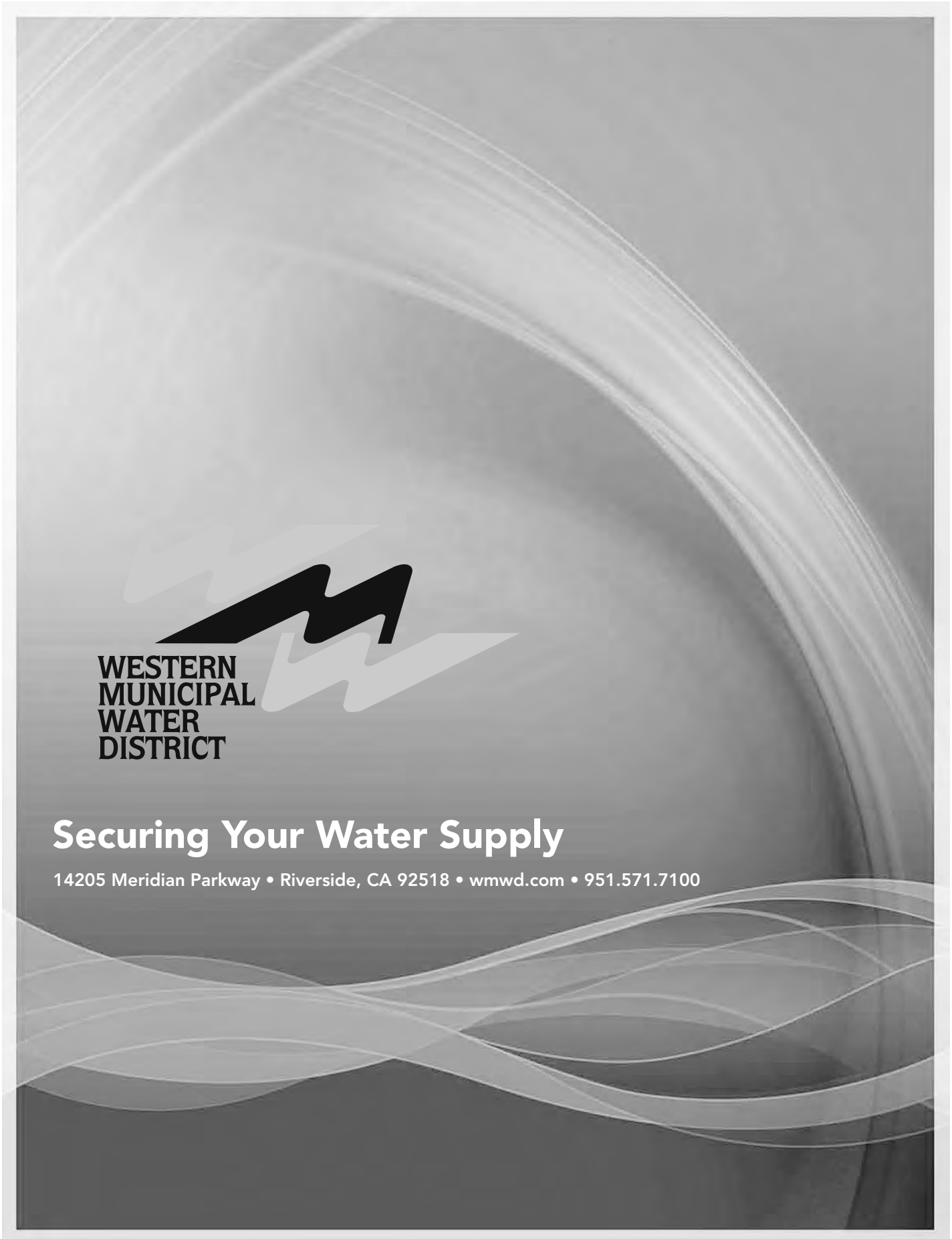
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APPENDIX D
FORM OF BOND COUNSEL OPINION

Western Municipal Water District Facilities Authority
Riverside, California

Re: $43,775,000 Western Municipal Water District Facilities Authority, Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Western Municipal Water District Facilities Authority (the "Authority") in connection with the issuance by the Authority of its $43,775,000 Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A (the "Bonds"). The Bonds are being issued under that certain Indenture of Trust dated as of June 1, 2012 (the "Indenture"), by and between U.S. Bank National Association, as trustee, and the Authority, and are secured by certain installment payments to be made by the Western Municipal Water District of Riverside County (the "District") in accordance with the terms of the Master Installment Purchase Agreement dated as of May 1, 2009 (the "Master Agreement") and the Installment Purchase Agreement (Series 2012A) dated as of June 1, 2012 (the "Installment Purchase Agreement"), each by and between the Authority and the District.

In rendering our opinion, we have relied upon certain representations of fact and certifications made by the Authority, the District, the original purchasers of the Bonds and others, and such other information and documents as we consider necessary to render this opinion. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended (Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code) (the "Act"), and an authorizing resolution adopted by the Authority on June 20, 2012 (the "Resolution") approving the Indenture. The Bonds are dated as of their date of delivery and mature on the dates and in the amounts set forth in the Indenture. Interest on the Bonds is payable on the dates and at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture and are redeemable in the amounts, at the times and in the manner set forth in the Indenture.

All terms not defined herein have the meaning ascribed to those terms in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the Authority and are legal, valid and binding limited obligations of the Authority. The Bonds are secured and payable solely from amounts comprising the Trust Estate (as defined in Indenture), as and to the extent provided for in the Indenture. The Bond are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases.

2. The Indenture, the Master Agreement and the Installment Purchase Agreement have been duly authorized by the Authority, are valid and binding obligations of the Authority and are enforceable on the Authority in accordance with their respective terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases; provided, however, that we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein.

3. The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that the enforceability of the Indenture may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases.

4. The Master Agreement and the Installment Purchase Agreement have been duly authorized by the District, are valid and binding obligations of the District and are enforceable on the District in accordance with their respective terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases; provided, however, that we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein.

5. Under existing statutes, regulations, rulings and judicial decisions, interest 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; however, it should be noted that, with respect to corporations, such interest will not be included as an adjustment in the calculation of alternative minimum taxable income.

6. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed in paragraph (5) above as to the exclusion from gross income for federal income tax purposes of interest on the Bonds are subject to the condition that the Authority and the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the District each have covenanted to comply with all such requirements. Except as set forth in paragraph (5) above, we express no opinion as to any federal tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Master Agreement, the Installment Purchase Agreement and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth therein, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Best Best & Krieger LLP.

We are admitted to the practice of law only in the State of California and our opinions are limited to matters governed by the laws of the State of California 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 may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

APPENDIX E
DTC AND THE BOOK ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 85 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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org. The information on such websites is not incorporated herein by reference.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Bonds may wish to ascertain

that the nominee holding the 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 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payment 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 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 Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Bonds to the Trustee's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX F
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Western Municipal Water District of Riverside County (the "District") and Western Municipal Water District Facilities Authority (the "Authority") in connection with the issuance of the Authority's $43,775,000 aggregate principal amount Adjustable Rate Water Revenue Refunding Bonds, Series of 2012A (the "Bonds"). The Bonds have been issued pursuant to an Indenture of Trust dated as of June 1, 2012, between the Authority and U.S. Bank National Association, as trustee (the "Trustee") (the "Indenture"). The District and the Authority covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Authority for the benefit of the holders and beneficial owners of the Bonds.

Section 2. Definitions.

(a) "Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

(b) "Dissemination Agent" means, initially, U.S. Bank National Association, as Dissemination Agent, or any successor Dissemination Agent designated in writing by the District and has filed with the District a written acceptance of such designation.

(c) "Participating Underwriter" means Merrill Lynch, Pierce Fenner & Smith Incorporated, or any other financial institution required to comply with the Rule in connection with the reoffering of the Bonds.

(d) "Official Statement" means the Official Statement dated June 27, 2012, prepared in connection with the issuance of the Bonds.

(e) "Repository" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, and any other Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at http://www.sec.gov/info/municipal/nrmsir.htm.

(f) "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.

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

(h) "MSRB" means the Municipal Securities Rulemaking Board. The current address of the MSRB is 1640 King Street, #300, Alexandria, Virginia 22314, Attn: The Interim CDI System, telephone: (202) 223-9503.

(i) "SEC" means the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than April 1 in each year while the Bonds are outstanding commencing on April 1, 2013, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure

Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report.

(b) If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A hereto.

(c) The Dissemination Agent shall:

(i) Determine each year prior to the date for providing the Annual Report the name and address of the Repository; and (if the Dissemination Agent is other than the District)

(ii) File a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all Repositories to which it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) A copy of its annual financial statements prepared in accordance with generally accepted accounting principles, audited by a firm of certified public accountants. 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 Annual Report and audited financial statements will be provided when and if available. In such an event, the Disclosure Agreement shall contain a statement as to the estimated date on which the District's audited financial statements are expected to be available.

(b) The following information, to the extent not included in the audited financial statements of the District, providing financial and operating data substantially similar to that provided in the corresponding tables and charts in the Official Statement: (1) outstanding indebtedness; (2) District budget and actual results; (3) the information presented in the tables and the information regarding rates and charges under the captions WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY "- Water System," "- Wastewater System," "- Historical Operating Results" and "- Property Tax Revenues" and including the information presented in Table 1, Table 2, Table 3, Table 5 and Table 7, and (4) information regarding the investment policies and practices with respect to District funds and the status of the investment of District funds, similar to the information included in the Official Statement for the Bonds, together with the most recent monthly report for any investment pool, so long as the District has money on deposit therein.

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

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District and the Authority 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 in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.

2. tender offers.

3. defeasances.

4. rating changes.

5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).

6. unscheduled draws on the debt service reserves reflecting financial difficulties.

7. unscheduled draws on credit enhancement reflecting financial difficulties.

8. substitution of the credit or liquidity providers or their failure to perform.

9. bankruptcy, insolvency, receivership or similar event of the District or Authority. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District or Authority 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 District or Authority, 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 District or Authority.

(b) Pursuant to the provisions of this Section 5, the District and Authority 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. non-payment related defaults.

2. modifications to rights of bondholders.

3. optional, contingent or unscheduled note calls.

4. unless described under Section 5(a)(5) above, notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

5. release, substitution or sale of property securing repayment of the Bonds.

6. the consummation of a merger, consolidation, or acquisition involving the District or Authority or the sale of all or substantially all of the assets of the District or Authority, 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.

7. Appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.

(c) Whenever the District or Authority obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District or Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District or Authority determines that knowledge of the occurrence of a Listed Event under Section 5(c) hereof would be material under applicable federal securities laws, the District or Authority shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's or Authority's determination of materiality pursuant to Section 5(c).

Section 6. **Termination of Reporting Obligation.** The District's and the Authority's obligations under this Disclosure Agreement shall be in effect from and after the execution and delivery of the Bonds and shall extend to the earlier of (i) the date all principal and interest on the Bonds shall have been deemed paid pursuant to the terms of the Indenture; (ii) the date that the District and the Authority shall no longer constitute an "obligated person" within the meaning of the Rule.

Section 7. **Enforcement.** The obligations of the District and the Authority hereunder shall be for the benefit of the Participating Underwriter and the Owners of the Bonds, including Beneficial Owners of the Bonds. Unless otherwise required by law, no owners of the Bonds shall be entitled to damages for the District's or the Authority's non-compliance with its undertakings set forth in this Disclosure Agreement; however, Participating Underwriter, Owners of the Bonds, including Beneficial Owners of the Bonds, may enforce specific performance of such undertakings by any judicial proceeding available. Breach of the undertakings of the District and the Authority hereunder shall not constitute an event of default under the Indenture and none of the rights and remedies provided by the Indenture with respect to an event of default, shall be available to the Participating Underwriter, Owners of the Bonds, including Beneficial Owners.

Section 8. **Dissemination Agent; Duties.** The District or the Authority may, from time to time, appoint or engage a Dissemination Agent to assist the District in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The obligations of the District under this Disclosure Agreement shall survive resignation or removal of the Dissemination Agent.

The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the Authority all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the Authority, the owners of the Bonds or any other party. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 9. **Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the District and the Authority may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if (i) such amendment or waiver does not, in and of itself, cause the undertakings herein to violate the Rule, but taking into account any subsequent change in or official interpretation of the Rule and the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds. The District shall provide notice of any such amendment or waiver to each Repository.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5 and (ii) the Annual Report for the year in which the change is made should represent a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the formed accounting principles.

Section 10. **Default.** In the event of a failure of the District or the Authority to comply with any provision of this Disclosure Agreement, the Trustee at the written direction of the Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, or any Owner or Beneficial Owner 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 Agreement, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement shall be an action to compel performance.

Section 11. **Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the District of the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of an event other than a Significant Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of the occurrence of an event other than a Significant Event in addition to what is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 12. **Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the District, the Authority, the Trustee, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create not rights in any other person or entity.

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

DATE: June 1, 2012

WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY

By: _____
Authorized Signature

WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY

By: _____
Authorized Signature

ACCEPTED BY:

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By: _____
Authorized Signature

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signature

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: Western Municipal Water District Facility Authority
(the "District")

Issue: Adjustable Rate Water Revenue Refunding Bonds Series of 2012A

Date of Delivery: June 28, 2012

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-referenced Bonds as required by resolution of the Board of Directors of the District and by the Continuing Disclosure Agreement executed on _____ by the District. The District anticipates that the Annual Report will be filed on or before _____.

Dated: _____

WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY

By:_____
Authorized Signature

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WESTERN MUNICIPAL WATER DISTRICT FACILITIES AUTHORITY • ADJUSTABLE RATE WATER REVENUE REFUNDING BONDS, SERIES OF 2012A

MIX
From responsible sources
FSC™ C017146
FSC
www.fsc.org

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www.ImageMaster.com