



\$94,455,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2018A
CUSIP: 27627T BV3

Dated: Date of Issuance**Price: 100%****Due: July 1, 2046**

The 2018A Bonds are being issued in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2018A Bonds will not receive securities certificates representing their beneficial ownership in the 2018A Bonds purchased. The principal of and interest on the 2018A Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments and premium, if any, are to be disbursed to the Beneficial Owners of the 2018A Bonds through their nominees.

The 2018A Bonds are being issued initially as variable rate demand obligations in denominations of \$100,000 or any \$5,000 increment in excess of \$100,000. The 2018A Bonds will bear interest at a Daily Interest Rate as described herein, until the interest rate mode is changed as provided herein. So long as the 2018A Bonds bear interest at the Daily Interest Rate, interest will be payable on the first day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day, commencing October 1, 2018. The 2018A Bonds will be subject to mandatory tender for purchase upon a conversion to an Interest Rate Period other than a Daily Interest Rate Period in the manner described herein.

THIS OFFICIAL STATEMENT DESCRIBES THE 2018A BONDS ONLY WHILE BEARING INTEREST AT THE DAILY INTEREST RATE.

The 2018A Bonds are being issued pursuant to the Indenture of Trust, dated as of September 1, 2018, by and between Eastern Municipal Water District and U.S. Bank National Association, as trustee, to refund certain outstanding obligations of the District and to pay costs of issuance of the 2018A Bonds, all as more fully described herein.

The obligation of the District to pay principal of and interest on the 2018A Bonds is: (i) subordinate to the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$9,275,000; and (ii) on parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$900,285,240 and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. The District may incur additional obligations payable on a senior basis to the 2018A Bonds, subject to the terms and conditions of the Master Resolution (as such term is defined in Appendix C), as more fully described herein. The District may also incur additional obligations payable from Net Revenues on parity with the 2018A Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

The 2018A Bonds are subject to optional and mandatory redemption prior to maturity and optional and mandatory tender as more fully described herein.

The purchase price of the 2018A Bonds that are tendered for purchase and not remarketed will be made from amounts made available pursuant to a Standby Bond Purchase Agreement, dated as of September 1, 2018, by and among the District, the Trustee and Bank of America, N.A. The Standby Bond Purchase Agreement has a scheduled termination date of September 27, 2022, subject to earlier termination, **including immediate and automatic termination or suspension without notice in certain circumstances**, under conditions described herein, and may be extended or may be replaced by an Alternate Liquidity Facility or other security at or prior to termination.

BANK OF AMERICA, N.A.

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2018A BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2018A BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2018A BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the 2018A 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. In the further opinion of Bond Counsel, interest on the 2018A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR 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 2018A Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2018A Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Olivarez Madruga Lemieux O’Neill, LLP, Westlake Village, California, for the Underwriter by its counsel Norton Rose Fulbright US LLP, Los Angeles, California, for Bank of America, N.A., by Chapman and Cutler LLP, Chicago, Illinois, and for the Trustee by its counsel. Citigroup Global Markets Inc. will serve as Remarketing Agent for the 2018A Bonds. It is anticipated that the 2018A Bonds will be available for delivery through the facilities of The Depository Trust Company on or about September 27, 2018.

CITIGROUP
As Underwriter and Remarketing Agent

Dated: September 26, 2018

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations in connection with the issuance of the 2018A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the 2018A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the 2018A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information set forth herein has been obtained from sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. All summaries of the 2018A Bond documents or other documents are made subject to the respective provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith.

IN CONNECTION WITH THE OFFERING OF THE 2018A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2018A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

THE 2018A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2018A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains an Internet website. However, the information presented on such website is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2018A Bonds.

EASTERN MUNICIPAL WATER DISTRICT

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

BOARD OF DIRECTORS OF THE DISTRICT

David J. Slawson, President
Ronald W. Sullivan, Vice President
Joseph J. Kuebler, CPA, Treasurer
Philip E. Paule, Director
Randy A. Record, Director

DISTRICT STAFF

Paul D. Jones II, P.E., General Manager
Nick Kanetis, Deputy General Manager
Jeff Wall, Assistant General Manager, Operations and Maintenance
Joe Mouawad, Assistant General Manager, Planning, Engineering and Construction
Charles Turner, Director of Finance
Sheila Zelaya, Board Secretary

DISTRICT GENERAL COUNSEL

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BOND COUNSEL

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

FINANCIAL ADVISOR

PFM Financial Advisors LLC
Los Angeles, California

REMARKETING AGENT

Citigroup Global Markets Inc.
Los Angeles, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

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\$94,455,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2018A

INTRODUCTION

This Official Statement, including the front cover page and all appendices, provides certain information concerning the sale and delivery of the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018A (the “**2018A Bonds**”).

The 2018A Bonds are being issued by Eastern Municipal Water District (the “**District**”) pursuant to the Indenture of Trust, dated as of September 1, 2018 (the “**Indenture**”), by and between the District and U.S. Bank National Association, as trustee (the “**Trustee**”), to provide funds to refund a portion of the outstanding Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017E (the “**2017E Bonds**”) and to pay costs of issuance of the 2018A Bonds, all as more fully described under the captions “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The principal of and interest on the 2018A Bonds are payable from Net Revenues, which consist of Net Water and Sewer Revenues of the District less all net amounts payable by the District on Parity Obligations of the District, as more fully described under the caption “SECURITY FOR THE 2018A BONDS.” **The obligation of the District to pay principal of and interest on the 2018A Bonds is: (i) subordinate to the obligation of the District to make payments on Parity Obligations of the District currently outstanding in the aggregate principal amount of \$9,275,000; and (ii) on parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$900,285,240 and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements which hedge certain variable rate obligations of the District. See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.”**

The District expects to issue the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018B (the “**2018B Bonds**”) in the aggregate principal amount of approximately \$53,485,000 on or about the date of issuance of the 2018A Bonds. If issued, the 2018B Bonds are expected to be payable from Net Revenues on parity with the 2018A Bonds. The proceeds of the 2018B Bonds are expected to be applied to refund the portion of the outstanding 2017E Bonds that is not being refunded from proceeds of the 2018A Bonds. Upon the issuance of the 2018A Bonds and the 2018B Bonds and the application of the proceeds thereof, the 2017E Bonds will no longer be outstanding.

The District also expects to issue the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018C (the “**2018C Bonds**”) in the aggregate principal amount of approximately \$47,780,000 on or about the date of issuance of the 2018A Bonds. If issued, the 2018C Bonds are expected to be payable from Net Revenues on parity with the 2018A Bonds. The proceeds of the 2018C Bonds are expected to be applied to refund all of the outstanding Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017F (the “**2017F Bonds**”). Upon the issuance of the 2018C Bonds and the application of the proceeds thereof, the 2017F Bonds will no longer be outstanding.

The District may incur additional Parity Obligations, which are payable on a senior basis to the 2018A Bonds, subject to the terms and conditions of the Master Resolution (as such term is defined in Appendix C), as more fully described under the caption “SECURITY FOR THE 2018A BONDS—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution.” The District may also incur additional obligations payable from Net Revenues on parity with the 2018A Bonds, subject to the terms and conditions of the Indenture, as more fully described under the caption “SECURITY FOR THE 2018A BONDS—Additional Obligations—Issuance of Additional Subordinate Obligations under Indenture.”

The 2018A Bonds will be issued initially as variable rate demand obligations in denominations of \$100,000 or any \$5,000 increment in excess of \$100,000. The 2018A Bonds will bear interest at a Daily Interest Rate as described herein until the interest rate mode is changed as provided herein. So long as the 2018A Bonds bear interest at the Daily Interest Rate, interest will be payable on the first day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day, commencing October 1, 2018. The 2018A Bonds will be subject to mandatory tender for purchase upon a conversion to an Interest Rate Period other than a Daily Interest Rate Period in the manner described herein. See the caption “THE 2018A BONDS.”

The purchase price of the 2018A Bonds that are tendered for purchase and not remarketed may be made from amounts paid by Bank of America, N.A. (the “**Bank**”) made available pursuant to a Standby Bond Purchase Agreement, dated as of September 1, 2018 (the “**Standby Bond Purchase Agreement**”), by and among the District, the Trustee and the Bank. The Standby Bond Purchase Agreement has a scheduled termination date of September 27, 2022, subject to earlier termination (including immediate and automatic termination or suspension without notice under certain circumstances) under conditions described herein, and may be extended or may be replaced by an Alternate Liquidity Facility or other security at or prior to termination. See the caption “THE LIQUIDITY FACILITY.”

Except as otherwise noted under the caption “THE LIQUIDITY FACILITY,” the term “**Liquidity Facility**” means the Standby Bond Purchase Agreement or a line of credit, loan, guaranty or similar agreement issued by the Liquidity Facility Provider (as such term is defined in Appendix C) to provide liquidity support to pay the Purchase Price of the 2018A Bonds that are tendered for purchase in accordance with the provisions of the Indenture, and any Alternate Liquidity Facility that is delivered pursuant to the Indenture and with terms that are not inconsistent with the terms of the Indenture.

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2018A BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OF CALIFORNIA (THE “**STATE**”) OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2018A BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2018A BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

See the caption “SECURITY FOR THE 2018A BONDS—Limited Liability of District.”

The summaries and references to the Master Resolution, the Indenture, the Continuing Disclosure Certificate executed by the District as of the date of issuance of the 2018A Bonds (the “**Continuing Disclosure Certificate**”), the Liquidity Facility and all other documents, statutes, reports and other instruments that are referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by the provisions of the full such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Perris, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word that is not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Master

Resolution or the Indenture and, as used herein, has the meaning given to it in the Master Resolution or the Indenture, as applicable. See Appendix C for summaries of certain provisions of the Master Resolution and the Indenture. Unless otherwise indicated, all financial and statistical information in this Official Statement has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related items. Any 2018A Bond Owner can obtain a copy of publicly available information from the District. Additional information concerning the Official Statement may be obtained by contacting the Trustee or the District's Director of Finance, P.O. Box 8300, Perris, California 92572-8300, Telephone (951) 928-3777.

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

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

THE REFUNDING PLAN

The 2017E Bonds, which are currently outstanding in the aggregate principal amount of \$147,305,000, were issued pursuant to an Indenture of Trust, dated as of May 1, 2017 (as amended, the "**2017E Indenture**"), by and between the District and U.S. Bank National Association, as trustee (the "**2017E Trustee**"). The 2017E Bonds are payable from Net Revenues on parity with the 2018A Bonds. The District plans to apply a portion of the proceeds of the 2018A Bonds, together with a portion of the proceeds of the 2018B Bonds (as described under the caption "INTRODUCTION"), to redeem all of the outstanding 2017E Bonds on or about the date of issuance of the 2018A Bonds and the 2018B Bonds.

To effect such redemption, the District will cause a portion of the proceeds of the 2018A Bonds and the 2018B Bonds to be deposited with the 2017E Trustee on the date of issuance of the 2018A Bonds and the 2018B Bonds. From such moneys, together with moneys held in the funds and accounts established in connection with the 2017E Bonds, the District will cause the 2017E Trustee to redeem the 2017E Bonds maturing on or after the date of issuance of the 2018A Bonds and the 2018B Bonds at a redemption price equal to the principal amount thereof plus interest accrued with respect thereto, without premium, on or about the date of issuance of the 2018A Bonds and the 2018B Bonds.

As a result of the deposit and application of funds as provided above, all obligations with respect to the 2017E Bonds will be redeemed and defeased pursuant to the provisions of the 2017E Indenture as of the date of issuance of the 2018A Bonds and the 2018B Bonds.

The amounts held by the 2017E Trustee for the purposes described above are pledged solely to the redemption of the 2017E Bonds and will not be available for payments on the 2018A Bonds or the 2018B Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2018A Bonds and the redemption of the 2017E Bonds:

Sources⁽¹⁾:	Principal Amount of 2018A Bonds	<u>\$94,455,000</u>
	Total Sources:	\$94,455,000
Uses⁽¹⁾:	Deposit for Redemption of 2017E Bonds ⁽²⁾	\$94,065,000
	Costs of Issuance ⁽³⁾	<u>390,000</u>
	Total Uses:	\$94,455,000

(1) Amounts rounded to the nearest dollar. Totals may not add due to rounding.

(2) The remaining outstanding amount of the 2017E Bonds will be refunded from proceeds of the 2018B Bonds. See the caption "THE REFUNDING PLAN."

(3) Includes certain legal, financing, rating agency and Trustee fees, Underwriter's discount, Liquidity Facility fees and printing costs.

THE 2018A BONDS

The 2018A Bonds bear interest initially at a Daily Interest Rate as described in the Indenture. The interest rate and Interest Rate Period on and for the 2018A Bonds may be adjusted as set forth in the Indenture. Except while the 2018A Bonds bear interest at Bond Interest Term Rates, all 2018A Bonds will bear the same interest rate for the same Interest Rate Period. No 2018A Bond will, at any time, bear interest in excess of the Maximum Rate (as such term is defined in the Indenture), which, in any event, may not exceed 12% per annum.

Except as otherwise provided in the Liquidity Facility with respect to Bank Bonds, interest on the 2018A Bonds will be paid on each Interest Payment Date and Redemption Date and on the Maturity Date thereof. With respect to the 2018A Bonds for any Daily Interest Rate Period, "**Interest Payment Date**" means the first day of each calendar month or, if such day is not a Business Day, the next succeeding Business Day.

During any Daily Interest Rate Period, interest on the 2018A Bonds will accrue on the basis of the actual number of days elapsed during the Interest Rate Period and a year of 365 days (366 days in a leap year). Each 2018A Bond will bear interest from and including each Interest Accrual Date. However, if, as shown by the records of the Trustee, interest on the 2018A Bonds is in default, 2018A Bonds issued in exchange for 2018A Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on the 2018A Bonds so surrendered or, if no interest has been paid on the 2018A Bonds, from the date thereof.

For any Daily Interest Rate Period, interest on the 2018A Bonds will be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of such month. "**Interest Accrual Date**" means, for any Daily Interest Rate Period, the first day thereof, and thereafter, the first day of each calendar month during such Daily Interest Rate Period.

In any event, interest on the 2018A Bonds will be payable for the final Interest Rate Period to but not including the date on which the 2018A Bonds have been paid in full.

Daily Interest Rate and Daily Interest Rate Period

During each Daily Interest Rate Period for the 2018A Bonds, the 2018A Bonds will bear interest at the Daily Interest Rate, which will be determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate will be the rate of interest per annum determined by the Remarketing

Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the 2018A Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) on or before 10:00 a.m., New York City time, on a Business Day to be the minimum interest rate which, if borne by all of the 2018A Bonds, would enable the Remarketing Agent to sell the 2018A Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day will be the same as the Daily Interest Rate for the immediately preceding Business Day.

If for any reason a Daily Interest Rate is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day will be the same as the Daily Interest Rate for the immediately preceding day and such rate will continue until the earlier of: (1) the date on which the Remarketing Agent determines a new Daily Interest Rate; or (2) the seventh day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate is held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven days as described in clause (2) of the immediately preceding sentence, the interest rate applicable to the 2018A Bonds, as determined by the Remarketing Agent, will be equal to 110% of the SIFMA Index of Municipal Market Data, or its successors and assigns, made available for the week preceding the date of determination or, if such index is no longer available, 70% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* as reported for each Business Day (and for the next preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by the Remarketing Agent.

Conversion of Interest Rate Periods

At the direction of the District, from time to time, the 2018A Bonds may be Converted from an Interest Rate Period to another Interest Rate Period as provided in the Indenture.

Notice Upon Converting Interest Rate. If the District elects to Convert the interest rate borne by the 2018A Bonds to a Weekly Interest Rate, a Long-Term Interest Rate or Bond Interest Term Rates as provided in the Indenture, the written direction furnished by the District to the Trustee, the Tender Agent (if any), the Liquidity Facility Provider, and the Remarketing Agent, as required by the Indenture will be made by registered, certified or overnight mail, or by electronic mail. Such direction will specify whether the 2018A Bonds are to bear interest at a Weekly Interest Rate, Long-Term Interest Rate or Bond Interest Term Rates and will be accompanied by a copy of the notice required to be given by the Trustee pursuant to the Indenture. The Trustee will give notice by first class mail of a Conversion to another Interest Rate Period to the Owners of the affected 2018A Bonds not less than 30 days prior to the effective date of such Conversion (or 15 days prior for a Conversion to a Weekly Interest Rate). Such notice will state: (a) that the interest rate will be Converted to a Weekly Interest Rate, Long-Term Interest Rate or Bond Interest Term Rates unless the District rescinds its election to Convert the interest rate to a Weekly Interest Rate, Long-Term Interest Rate or Bond Interest Term Rates; (b) the proposed effective date of the Weekly Interest Rate Period, Long-Term Interest Rate Period (and the duration and last day thereof), Short-Term Interest Rate Period or the Bond Interest Rate Period; (c) that the 2018A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2018A Bonds; and (d) the information set forth under the caption “—Optional and Mandatory Tender—Notice of Mandatory Tender for Purchase” below.

Rescission of Election. Notwithstanding anything in the Indenture to the contrary, in connection with any Conversion of the Interest Rate Period for the 2018A Bonds, the District has the right to deliver to the Trustee, the Remarketing Agent, the Tender Agent and the Liquidity Facility Provider, on or prior to 10:00 a.m., New York City time, on or before the second Business Day prior to any such Conversion a notice to the effect that the District elects to rescind its election to make such Conversion. If the District rescinds its election to make such Conversion, then the Interest Rate Period will not be Converted and the 2018A Bonds will continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed

Conversion. In any event, if notice of a Conversion has been mailed to the Owners of the 2018A Bonds as provided in the Indenture and the District rescinds its election to make such Conversion, then the 2018A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Indenture.

Certain Additional Conditions. No Conversion of 2018A Bonds from one Interest Rate Period to another will take effect under the Indenture unless each of the following conditions, to the extent applicable, has been satisfied: (a) with respect to the new Interest Rate Period, there will be in effect a Liquidity Facility, which provides coverage for the Interest Rate Period into which the 2018A Bonds are to be converted, if and as required under the Indenture; (b) the Trustee has received an Opinion of Bond Counsel with respect to such Conversion; and (c) in the case of any Conversion with respect to which there is no Liquidity Facility in effect to provide funds for the purchase of 2018A Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the 2018A Bonds at the Purchase Price (but not including any premium).

Failure to Meet Conditions. In the event that any condition to the Conversion of the 2018A Bonds is not satisfied as provided in the Indenture, then the Interest Rate Period will not be Converted and the 2018A Bonds will continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed Conversion, and the 2018A Bonds will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Indenture.

Optional and Mandatory Tender

During Daily Interest Rate Period. During any Daily Interest Rate Period, any 2018A Bond (other than a Bank Bond) bearing interest at a Daily Interest Rate will be purchased in an Authorized Denomination (provided that the amount of any such 2018A Bond not to be purchased will also be in an Authorized Denomination) from its Beneficial Owner according to the operational arrangements of DTC at the option of the Beneficial Owner on any Business Day at a purchase price equal to the Purchase Price, payable in immediately available funds, upon delivery to the Tender Agent at its Office for delivery of 2018A Bonds, to the Trustee at its Office and to the Remarketing Agent at the address set forth in the Remarketing Agreement, by no later than 11:00 a.m., New York City time, on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of such 2018A Bonds to be purchased and the date of purchase. For payment of such Purchase Price on the date specified in such notice, such 2018A Bonds must be delivered, at or prior to 12:00 noon, New York City time, on such Business Day, to the Tender Agent at its Office for delivery of 2018A Bonds, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Owner or Beneficial Owner thereof or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange

During any Daily Interest Rate Period for which the book-entry system described in the Indenture is in effect, any 2018A Bond bearing interest at the Daily Interest Rate or portion thereof (provided that the principal amount to be purchased and the principal amount to be retained will each be an Authorized Denomination) will be purchased on the date specified in the notice referred to below at the Purchase Price. The irrevocable written notice, executed by the Participant, will be delivered on any Business Day by the Participant for such 2018A Bond to the Tender Agent at its Office for the delivery of such 2018A Bonds by 11:00 a.m., New York City time, to the Trustee at its Office and to the Remarketing Agent. Such notice will state the principal amount to be purchased and the date on which the same will be purchased. Upon confirmation by the Securities Depository to the Trustee that such Participant has an ownership interest in the 2018A Bonds at least equal to the amount of 2018A Bonds specified in such irrevocable written notice, payment of the Purchase Price will be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Purchase Price of par, plus accrued interest, on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such 2018A Bond tendered for purchase to the account of the Tender

Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 1:30 p.m., New York City time, on the date specified in such notice.

Mandatory Tender for Purchase at the Option of the District. The 2018A Bonds will also be subject to mandatory tender for purchase at the option of the District on the first day of each Interest Rate Period at the Purchase Price, payable in immediately available funds. For payment of the Purchase Price on the Purchase Date, a 2018A Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date. If delivered after that time, the Purchase Price will be paid on the next succeeding Business Day.

Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Liquidity Facility. If at any time that the Liquidity Facility Provider has not failed to honor a properly presented and conforming draw request, the Trustee gives notice, in accordance with the Indenture, that the 2018A Bonds will, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility then in effect as a result of: (a) the substitution of such Liquidity Facility or the termination or expiration of the term, as extended, of such Liquidity Facility, including but not limited to termination at the option of the District in accordance with the terms of such Liquidity Facility; or (b) the occurrence of a Mandatory Standby Tender, then on the Business Day prior to the date of such substitution, termination or expiration of such Liquidity Facility (after giving effect to any drawing required to be made thereunder), including any termination as a result of a Mandatory Standby Tender, each such 2018A Bond will be purchased or deemed purchased at the Purchase Price. Upon the occurrence of any of the events specified in the Liquidity Facility that gives rise to an automatic termination or suspension of the Liquidity Facility by the Liquidity Facility Provider, no mandatory tender for purchase of 2018A Bonds will occur. See the caption “THE LIQUIDITY FACILITY.”

Payment of the Purchase Price of any such 2018A Bond will be made in immediately available funds by 3:00 p.m., New York City time, on the Purchase Date upon delivery (in the event that the 2018A Bonds are not subject to the book-entry system) to the Tender Agent at its Office for delivery of 2018A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner or Beneficial Owner with the signature of such Owner or Beneficial Owner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon, New York City time, on the Purchase Date specified in the Indenture. If, as a result of any Mandatory Standby Tender, substitution, expiration or termination of such a Liquidity Facility, any 2018A Bond is no longer subject to purchase pursuant to a Liquidity Facility, the Tender Agent will present such 2018A Bond to the Trustee for notation of such fact thereon.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of 2018A Bonds at the option of the District (as described under the caption “—Mandatory Tender for Purchase at the Option of the District”) or in connection with a substitution, termination or expiration of a Liquidity Facility (as described under the caption “—Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Liquidity Facility”), the Trustee will give notice to the Owners of the 2018A Bonds stating: (a) in the case of a mandatory tender for purchase at the option of the District, the type of Interest Rate Period to commence on such mandatory purchase date; (b) in the case of a mandatory tender in connection with a substitution, termination or expiration of a Liquidity Facility, that the Liquidity Facility will expire or terminate on the Business Day after the Purchase Date and that the 2018A Bonds will no longer be payable from the Liquidity Facility then in effect and that any rating applicable to such 2018A Bonds may be reduced or withdrawn and, in the case of a substitution, the name of a new Liquidity Facility Provider and that information about such new Liquidity Facility Provider will be forthcoming; (c) that the Purchase Price of any 2018A Bond subject to mandatory tender for purchase will be payable only through the operational arrangements of DTC or upon surrender to the Tender Agent at its Office for delivery of 2018A Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Owner or Beneficial Owner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (d) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such 2018A Bonds by the

Remarketing Agent or through the Liquidity Facility, all 2018A Bonds subject to mandatory tender for purchase will be purchased on the mandatory Purchase Date; and (e) that if any Owner or Beneficial Owner subject to mandatory tender for purchase does not surrender a 2018A Bond to the Tender Agent for purchase on the mandatory Purchase Date, then such 2018A Bond will be deemed to be an Undelivered Bond, that no interest will accrue on such 2018A Bond on and after the mandatory Purchase Date and that the Owner and Beneficial Owner will have no rights under the Indenture other than to receive payment of the Purchase Price.

Right to Rescind Notice of Mandatory Tender for Purchase at the Option of the District. Notwithstanding anything in the Indenture to the contrary, in connection with any mandatory tender for purchase of 2018A Bonds at the option of the District (as described under the caption “—Mandatory Tender for Purchase at the Option of the District”), the District has the right to deliver to the Trustee, the Remarketing Agent, the Tender Agent and the Liquidity Facility Provider, on or prior to 10:00 a.m., New York City time, on or before the second Business Day prior to any such mandatory tender for purchase a notice to the effect that the District elects to rescind its election to effect such mandatory tender for purchase. If the District rescinds its election to effect such mandatory tender for purchase, then the 2018A Bonds will not be subject to mandatory tender for purchase and will continue to bear interest at the Daily Interest Rate as in effect immediately prior to such proposed mandatory tender for purchase.

Inadequate Funds for Tenders. If sufficient funds are not available for the purchase of all 2018A Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, the District has no obligation to purchase such tendered 2018A Bonds and all 2018A Bonds will bear interest at the Maximum Rate from the date of such failed tender until all such 2018A Bonds are purchased, and all tendered 2018A Bonds will be returned to their respective Owners. Notwithstanding any other provision of the Indenture, such failed purchase and return do not constitute an Event of Default.

Special Considerations Relating to the 2018A Bonds

The Remarketing Agent is Paid by the District. The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing 2018A Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), 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 the 2018A Bonds.

The Remarketing Agent Routinely Purchases 2018A 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, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2018A Bonds for its own account and, in its sole discretion, may acquire such tendered 2018A Bonds in order to achieve a successful remarketing of the 2018A Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the 2018A Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase 2018A Bonds and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2018A Bonds by purchasing and selling 2018A Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the 2018A Bonds. The Remarketing Agent may also sell any 2018A 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 2018A Bonds. The purchase of 2018A Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2018A Bonds in the market than is actually the case. The practices described above may also result in fewer 2018A Bonds being tendered in a remarketing.

2018A Bonds May be Offered at Different Prices on Any Date, Including a Remarketing Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the 2018A Bonds bearing interest

at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable remarketing date. The interest rate will reflect, among other factors, the level of market demand for the 2018A Bonds (including whether the Remarketing Agent is willing to purchase 2018A Bonds for its own account). There may or may not be 2018A Bonds tendered and remarketed on a remarketing date, the Remarketing Agent may or may not be able to remarket any 2018A Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2018A Bonds 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 2018A Bonds at the remarketing price. In the event that a Remarketing Agent owns any 2018A Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2018A Bonds on any date, including a remarketing date, at a discount to par to some investors.

The Ability to Sell the 2018A Bonds Other than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell 2018A Bonds other than through the tender process. However, 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 2018A Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2018A Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2018A Bonds other than by tendering the 2018A Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2018A Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event that there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

Redemption of the 2018A Bonds

Optional Redemption. 2018A Bonds bearing interest at a Daily Interest Rate will be subject to optional redemption by the District, in whole or in part, at a Redemption Price of 100% of the principal amount thereof plus accrued interest thereon, if any, to the Redemption Date, on any Business Day during a Daily Interest Rate Period.

Notwithstanding the foregoing, no 2018A Bond (other than a Bank Bond) will be optionally redeemed while any Bank Bond is Outstanding unless all Outstanding Bank Bonds are purchased by the Trustee and cancelled concurrently with such redemption.

Notwithstanding anything to the contrary in the Indenture, the District may redeem Bank Bonds, at its option, at any time, upon one Business Day's notice of redemption to the Liquidity Facility Provider and the Trustee, at a redemption price of 100% of the principal amount of the Bank Bonds to be redeemed plus accrued interest at the rate set forth therefor in the Liquidity Facility (including any Differential Interest Amount), if any, to but not including the Redemption Date.

Mandatory Redemption. Except as may be provided in the Indenture, the 2018A Bonds are also subject to mandatory sinking fund redemption in part (by lot) on July 1 of certain years on and after July 1, 2024, at a Redemption Price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium, in accordance with the below schedule. On each of the following payment dates, the Trustee will pay from the 2018A Principal Account an amount equal to the payment or payments due on such date as set forth below.

<i>Mandatory Redemption Date (July 1)</i>	<i>Principal Amount</i>
2024	\$ 50,000
2025	50,000
2026	55,000
2027	55,000
2028	60,000
2029	60,000
2030	70,000
2039	10,370,000
2040	10,735,000
2041	11,125,000
2042	11,515,000
2043	11,925,000
2044	12,350,000
2045	12,785,000
2046 [†]	13,250,000

[†] Final Maturity.

Notwithstanding the foregoing, if any Bank Bonds are Outstanding on any July 1 specified above, the Trustee will apply the scheduled payments becoming due on such July 1 to the purchase from the Liquidity Facility Provider of such Bank Bonds in an aggregate principal amount not in excess of the principal amount specified above for such July 1 at the redemption prices specified therefor in the Liquidity Facility with the Liquidity Facility Provider applicable thereto. The Bank Bonds so purchased will be cancelled by the Trustee and the principal amount thereof will be credited against the principal amount of the 2018A Bonds otherwise required to be redeemed on such July 1.

Mandatory Redemption of Bank Bonds. Any Bank Bonds from time to time Outstanding will be subject to mandatory redemption prior to the redemption of any other 2018A Bonds in the amounts and at the times and at the redemption prices specified therefor in the Liquidity Facility or other agreement with the Liquidity Facility Provider applicable thereto. Bank Bonds may also be subject to special mandatory redemption in accordance with the terms of the Liquidity Facility.

Partial Redemption. Upon surrender of any 2018A Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the District, a new 2018A Bond or 2018A Bonds of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the 2018A Bonds surrendered and of the same series, interest rate and Maturity Date.

Effect of Partial Redemption. In the event of any partial redemption of 2018A Bonds pursuant to the Indenture, the mandatory redemption schedule set forth above under the caption “—Mandatory Redemption” will be reduced in such order as the District selects prior to such redemption or, if no such election is made, in the inverse order thereof. The District will (in such manner as it in its sole discretion chooses) adjust the amount of each such reduction in the required mandatory redemption schedule, so that each such required redemption for the 2018A Bonds is made in Authorized Denominations and integral multiples thereof.

Selection of 2018A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2018A Bonds, the Trustee will select the 2018A Bonds for redemption as a whole or in part on any date as directed by the District and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture. The Trustee will promptly notify the District in writing of the numbers of the 2018A Bonds or portions thereof so selected for redemption.

Notice of Redemption

Notice of redemption will be mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date to the respective Owners of any 2018A Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption will state the date of notice, the Redemption Date, the place or places of redemption and the Redemption Price, designate the maturities, CUSIP numbers, if any, and, if less than all 2018A Bonds of any such maturity are to be redeemed, the serial numbers of the 2018A Bonds of such maturity to be redeemed by giving the individual number of each 2018A Bond or by stating that all 2018A Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2018A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the Redemption Date there will become due and payable on each of said 2018A Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2018A Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon will cease to accrue, and will require that such 2018A Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2018A Bond. Notice of redemption of 2018A Bonds will be given by the Trustee, at the expense of the District, for and on behalf of the District.

With respect to any notice of optional redemption of 2018A Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2018A Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2018A Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption

Notice of redemption having been duly given as described under the caption “—Notice of Redemption” and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2018A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2018A Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2018A Bonds so called for redemption will cease to accrue, said 2018A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2018A Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee will, upon surrender for payment of any of the 2018A Bonds to be redeemed on their Redemption Dates, pay such 2018A Bonds at the Redemption Price. All 2018A Bonds redeemed pursuant to the provisions of the Indenture will be canceled upon surrender thereof.

Book-Entry Only System

One fully-registered 2018A Bond will be issued in the principal amount of the 2018A Bonds. Such 2018A Bonds will be registered in the name of Cede & Co. and will be deposited with DTC. So long as the ownership of the 2018A Bonds is registered in the name of Cede & Co., the term “Owner” as used in this Official Statement refers to Cede & Co. and not to the actual purchasers of the 2018A Bonds (the “**Beneficial Owners**”).

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, the 2018A Bonds will be printed and delivered and will be

governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments on the 2018A Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E for additional information concerning DTC and the book-entry only system.

SECURITY FOR THE 2018A BONDS

General

Under the Master Resolution, the District may incur obligations payable on a subordinate basis to Parity Obligations. Pursuant to the Indenture, the 2018A Bonds are payable from Net Revenues, which consist of the Net Water and Sewer Revenues less all net amounts payable by the District on the Parity Obligations, and from amounts held in certain funds and accounts described in the Indenture. Net Water and Sewer Revenues consist of Water and Sewer Revenues less Maintenance and Operation Costs (as such terms are defined in Appendix C). See the caption “—Pledge of Net Revenues.”

See Appendix A under the caption “THE DISTRICT—Debt Structure of the District” for a description of Parity Obligations payable on a senior basis to the 2018A Bonds.

The 2018A Bonds are payable from Net Revenues on parity with the Subordinate Obligations, which consist of certain Contracts and Bonds (as such terms are defined in Appendix C) and certain regularly scheduled payments under two interest rate swap agreements. See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.”

Nothing in the Indenture or in the 2018A Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2018A Bonds to the respective Owners of the 2018A Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets therein pledged therefor, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2018A Bonds.

Pledge of Net Revenues

All of the Net Revenues, all amounts held in the Subordinate Obligation Payment Fund and any other amounts (including proceeds of the sale of the 2018A Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2018A Bonds in accordance with their terms and the provisions of the Indenture and all amounts owed to the Liquidity Facility Provider under the Liquidity Facility (including Bank Bonds), and the Net Revenues may not be used for any other purpose while the 2018A Bonds remain Outstanding; provided that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Master Resolution and the Indenture.

Such pledge, together with the pledge in favor of all other Contracts and Bonds, constitutes a first lien on and security interest in Net Revenues and, subject to application of Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund as permitted in the Indenture, in the Subordinate Obligation Payment Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2018A Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act, and will be valid and

binding against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice of the Indenture.

Flow of Funds

The Master Resolution provides for the allocation of Water and Sewer Revenues. Such provisions apply to the Parity Obligations (which are payable on a senior basis to the 2018A Bonds) and the Subordinate Obligations (which are payable on parity with the 2018A Bonds), as well as to such other debts and obligations payable from Water and Sewer Revenues which are outstanding currently and which the District may issue or incur in the future, including without limitation water and sewer revenue bonds, installment sale agreements, leases and contracts of indebtedness.

The Master Resolution establishes seven special funds which are held by the District: (i) a Water and Sewer Revenue Fund; (ii) a Rate Stabilization Fund; (iii) an Operating Fund; (iv) an Installment Payment Fund; (v) an Operating Reserve Fund; (vi) a Subordinate Obligation Payment Fund; and (vii) a General Reserve Fund. As described below, the 2018A Bonds are payable from amounts deposited in the Subordinate Obligation Payment Fund.

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

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

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

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

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

such reserve fund for Parity Obligations as and to the extent required by the applicable instrument by which such Parity Obligations were issued.

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

(v) Subordinate Obligation Payment Fund. On or before the last Business Day of each month, the District will deposit in the Subordinate Obligation Payment Fund (from which the 2018A Bonds are paid) a sum equal to the amount required to be deposited under the Indenture, the indentures pursuant to which Bonds were issued, Contracts, the interest rate swap agreements described in Appendix A under the caption "THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements" and each other instrument securing Subordinate Obligations issued on parity with the 2018A Bonds in the future, if any. See the caption "—Subordinate Obligation Payment Fund."

(vi) Subordinate Obligation Reserve Funds. On or before the last Business Day of each month, the District will transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or trust agreements or other instrument securing such Subordinate Obligation. No debt service reserve fund has been established in connection with the 2018A Bonds. See the caption "—No Debt Service Reserve Fund" below.

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

Subordinate Obligation Payment Fund

In order to carry out and effectuate the pledge and lien contained in the Indenture, the District has agreed and covenanted that all Net Revenues will be received by the District in trust under the Indenture and will be deposited when and as received in a special fund designated as the "Subordinate Obligation Payment Fund," which fund has been continued and which fund the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2018A Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Subordinate Obligation Payment Fund will be used and applied by the District as provided in the Indenture. All moneys in the Subordinate Obligation Payment Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth in the Indenture. See the caption "—Flow of Funds" for a discussion of the deposit of Net Revenues into the Subordinate Obligation Payment Fund.

All moneys in the Subordinate Obligation Payment Fund will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority:

(i) Interest and Principal Payments. Not later than the third Business Day prior to each Interest Payment Date, the District will, from the moneys in the Subordinate Obligation Payment Fund, transfer to the Trustee for deposit in the 2018A Payment Fund the payments of interest and principal on the 2018A Bonds due and payable on such Interest Payment Date. The District will also, from the moneys in the Subordinate Obligation Payment Fund, transfer to the applicable trustee for deposit in the respective payment

fund or directly to the payee of such payment obligation, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

Notwithstanding the foregoing, if at any time some or all of the 2018A Bonds are Bank Bonds, the District will also transfer to the Trustee for deposit in the 2018A Payment Fund on or prior to each Interest Payment Date the remainder of the interest then due with respect to the Bank Bonds computed at the Bank Bond Rate up to the Maximum Bank Bond Rate, and will pay directly to the Liquidity Facility Provider any additional interest and all other Liquidity Facility Provider Amounts with respect to the related drawing under the Liquidity Facility.

(ii) Reserve Funds. On or before each Interest Payment Date, the District will, from the remaining moneys in the Subordinate Obligation Payment Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee or payee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto.

(iii) Surplus. Moneys on deposit in the Subordinate Obligation Payment Fund on any date when the District reasonably expects that such moneys will not be needed for any of the purposes described in clauses (i) or (ii) above will first be applied to make any currently required termination payments with respect to any interest rate swap transactions and any remaining moneys will thereafter be deposited in the General Reserve Fund (as described under the caption “—Flow of Funds”), or, if the General Reserve Fund is no longer operative, such moneys may be expended by the District at any time for any purpose permitted by law.

All moneys held by the District in the Subordinate Obligation Payment Fund will be invested in Permitted Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Indenture.

Limited Liability of District

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2018A BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2018A BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2018A BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

No Reserve Fund

No debt service reserve fund or account has been established for the 2018A Bonds. None of the debt service reserve funds established in connection with other District obligations secure payment of the principal of and interest on the 2018A Bonds and such reserve funds may not be used to pay the principal of and interest on the 2018A Bonds.

No Acceleration of 2018A Bonds Upon Event of Default

Neither the Indenture nor the Master Resolution permit the 2018A Bonds to be accelerated upon an event of a default. See Appendix C under the caption “INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF 2018A BOND OWNERS” for further information with respect to remedies available in the event of a default.

Rate Covenant

Indenture. Pursuant to the Indenture, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service (as such term is defined in Appendix C) which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 115% of the Debt Service (as such term is defined in Appendix C) for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements. The District’s ability to maintain and adjust such rates, fees and charges is subject to the provisions of Articles XIII C and XIII D of the California Constitution. See Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”

Master Resolution. Pursuant to the Master Resolution, Net Water and Sewer Revenues must equal at least 110% of the sum of: (i) all debt service on Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the 2018A Bonds); (ii) all deposits required to be made to the Operating Reserve Fund (as described under the caption “—Flow of Funds”); and (iii) all debt service on all Subordinate Obligations (including the 2018A Bonds).

Additional Obligations

Issuance of Additional Parity Obligations under Master Resolution. Pursuant to the Master Resolution, the District may at any time incur or issue additional Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the 2018A Bonds), provided that:

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

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

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

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

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

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

The Master Resolution does not establish conditions to the issuance of additional Subordinate Obligations payable on parity with the 2018A Bonds.

Issuance of Additional Subordinate Obligations under Indenture. Pursuant to the Indenture, the District may at any time execute any Contract or issue any Bonds, as the case may be, payable on parity with the 2018A Bonds, in accordance with the Indenture; provided that:

(a) The Net Revenues for any consecutive 12 calendar month period during the 18 calendar month period, or for the most recent audited Fiscal Year, preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant (as such terms are defined in Appendix C) on such calculation on file with the District, produce a sum equal to at least 115% of the Debt Service for such 12 calendar month period or Fiscal Year; and

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

such Fiscal Year, plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such 12 calendar month period or Fiscal Year.

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

THE LIQUIDITY FACILITY

The following information has been supplied by the Liquidity Facility Provider for inclusion in this Official Statement and is believed to be reliable. This information has not been verified independently by the District or the Underwriter. The District and the Underwriter make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

*Notwithstanding anything to the contrary set forth in this Official Statement, the term “**Liquidity Facility**” when used in this caption “**THE LIQUIDITY FACILITY**” means the Standby Bond Purchase Agreement, dated as of September 1, 2018, by and among the District, the Trustee and the Liquidity Facility Provider.*

The Liquidity Facility Provider

Bank of America, N.A. (the “**Bank**”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “**Corporation**”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of June 30, 2018, the Bank had consolidated assets of \$1.76 trillion, consolidated deposits of \$1.392 trillion and stockholder’s equity of \$205.32 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the “**SEC**”).

Filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov> which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this Official Statement is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon St, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communication

PAYMENTS OF THE PURCHASE PRICE OF THE 2018A BONDS WILL BE MADE FROM AMOUNTS MADE AVAILABLE UNDER THE STANDBY BOND PURCHASE AGREEMENT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE STANDBY BOND PURCHASE AGREEMENT IS A BINDING OBLIGATION OF THE BANK, THE 2018A BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE 2018A BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this subcaption is correct as of any time subsequent to the referenced date.

Standby Bond Purchase Agreement

The following is a brief description of certain provisions of the Liquidity Facility. This description does not purport to be comprehensive and reference should be made to the Liquidity Facility for a full and complete statement of the provisions thereof. No representation is made by the District or the Underwriter as to the accuracy or completeness of the following information. Capitalized terms not otherwise defined herein will have the meanings ascribed to them in the Liquidity Facility.

General. The Liquidity Facility provides that the Liquidity Facility Provider will purchase the Eligible Bonds (as such term is defined in the Liquidity Facility) bearing interest at the Daily Interest Rate or the Weekly Interest Rate that are tendered or deemed tendered from time to time pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Indenture, to the extent that such Eligible Bonds are not remarketed by the Remarketing Agent.

Under certain circumstances described below, the obligation of the Liquidity Facility Provider to purchase Eligible Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender may be immediately suspended or terminated without notice. In such event, sufficient funds may not be available to purchase such Eligible Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender. In addition, the Liquidity Facility does not provide security for the payment of principal of or interest or premium, if any, on the Eligible Bonds.

Purchase of Tendered Eligible Bonds by the Liquidity Facility Provider. Subject to the terms and conditions of the Liquidity Facility, the Liquidity Facility Provider will purchase from time to time during the period prior to the expiration or earlier termination of the Liquidity Facility, Eligible Bonds bearing interest at the Daily Interest Rate or the Weekly Interest Rate that are tendered or deemed tendered from time to time during the period (the “**Commitment Period**”) commencing on the date of delivery of the Liquidity Facility and ending on the Expiration Date (as such term is defined below) pursuant to an optional or mandatory tender by owners thereof in accordance with the terms and provisions of the Indenture, to the extent that such Eligible Bonds are not remarketed by the Remarketing Agent. The price to be paid by the Liquidity Facility Provider for such Eligible Bonds will be equal to the aggregate principal amount of each such Eligible Bond (provided that the aggregate principal amount of all Eligible Bonds so purchased may not exceed the Available Principal Commitment (as such term is defined in the Liquidity Facility)) plus the aggregate interest accrued and unpaid on all Eligible Bonds (provided that the aggregate interest accrued on all Eligible Bonds so purchased may not

exceed the lesser of: (i) the Available Interest Commitment (as such term is defined in the Liquidity Facility) on such date; and (ii) the actual aggregate interest accrued and unpaid with respect to each such Eligible Bond, other than Defaulted Interest, to but excluding the Purchase Date; provided, that if the applicable Purchase Date is an Interest Payment Date the amount described in this clause (ii) is reduced by the amount of interest payable with respect to each such Eligible Bond on such Interest Payment Date). The Available Principal Commitment with respect to the Eligible Bonds (which Available Principal Commitment may be adjusted from time to time in accordance with the provisions of the Liquidity Facility) initially means \$94,455,000. The Available Interest Commitment with respect to the Eligible Bonds (which Available Interest Commitment may be adjusted from time to time in accordance with the provisions of the Liquidity Facility) initially means \$1,242,148, an amount equal to 40 days' interest on the outstanding principal amount of the Eligible Bonds calculated at a rate of 12% per annum, on the basis of a 365-day year. The Liquidity Facility will not provide for the payment of principal of and interest on any Eligible Bonds other than with respect to the purchase price of the Eligible Bonds tendered or deemed tendered and not remarketed.

The Liquidity Facility will provide that the obligations of the Liquidity Facility Provider to purchase the Eligible Bonds will be terminated upon the earliest to occur of: (i) the Scheduled Expiration Date; (ii) the date that the District reduces the Available Commitment to zero by delivery of a certification in the form attached to the Liquidity Facility pursuant to the Liquidity Facility; (iii) the close of business on the Business Day (as such term is defined in the Liquidity Facility) immediately succeeding the conversion of all of the 2018A Bonds to an interest rate other than a Daily Interest Rate or a Weekly Interest Rate; (iv) the Termination Date (as such term is defined in the Liquidity Facility); (v) the date of the occurrence of an Immediate Termination Event (as such term is defined in the Liquidity Facility); (vi) the date on which the Available Commitment has been terminated in its entirety pursuant to the Liquidity Facility; (vii) the close of business on the Business Day immediately succeeding the Liquidity Substitution Date (as such term is defined in the Liquidity Facility); and (viii) the date on which no 2018A Bonds remain Outstanding (as such term is defined in the Indenture) pursuant to the terms of the Indenture (collectively, the "**Expiration Date**") Under certain circumstances as described below, the obligations of the Liquidity Facility Provider to purchase Eligible Bonds will be automatically suspended or terminated, without prior notice to or demand upon any party, and the Trustee will be unable to require the purchase of Eligible Bonds under the Liquidity Facility.

Events of Default. The following events constitute Events of Default under the Liquidity Facility. Reference is made to the Liquidity Facility for a complete list of all Events of Default.

(a) (i) Failure of the District to pay when due any principal of or interest on any 2018A Bonds or Bank Bonds (other than as a result of the acceleration of the payment of any Bank Bond pursuant to clause (e) under the caption "**—Remedies**" below); or (ii) failure of the District to repay a Liquidity Advance when due (other than as a result of the acceleration of the payment of any Liquidity Advance pursuant to clause (e) under the caption "**—Remedies**" below);

(b) Any Commitment Fee is not paid when due under the Fee Letter (as such term is defined in the Liquidity Facility) and such failure to pay when due continues for five (5) Business Days following the due date thereof;

(c) Any amount payable under the Liquidity Facility or under the Fee Letter (other than those amounts described in clauses (a) and (b) above) is not paid when due under the Liquidity Facility or under the Fee Letter, and such failure to pay when due continues for ten (10) Business Days following the due date thereof; or

(d) Any representation or warranty made by the District under or in connection with the Liquidity Facility or any of the Related Documents (as such term is defined in the Liquidity Facility) proves to be untrue in any material respect on the date as of which it was made or deemed made;

(e) The breach by the District of any provision of certain covenants set forth in the Liquidity Facility;

(f) The breach by the District of any of other term or provision of the Liquidity Facility (other than those referred to in clauses (a), (b), (c), (d) or (e) above) which is not remedied within 30 days after the occurrence thereof;

(g) (i) An “event of default” has occurred and is continuing under any of the Related Documents or (ii) any “event of default” occurs under any other agreement between the District and the Liquidity Facility Provider;

(h) (i) The District commences any case, proceeding or other action: (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate the District as bankrupt or insolvent or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to the District or its Debt (as such term is defined in the Liquidity Facility); or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the District makes a general assignment for the benefit of its creditors; or (ii) there is commenced against the District any case, proceeding or other action of a nature referred to in clause (i) above which: (x) results in an order for such relief or in the appointment of a receiver or similar official; or (y) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there is commenced against the District any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which has not been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the District takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the District admits in writing its inability to, pay its Debts generally as they become due or becomes insolvent within the meaning of Section 101(32) of the United States Bankruptcy Code;

(i) The Indenture terminates or ceases to be of full force and effect, other than as a result of any prepayment in full of the 2018A Bonds or provision for such prepayment in full in accordance with the Indenture;

(j) (i) Any provision of the Liquidity Facility, the 2018A Bonds, the Indenture or the Master Resolution related to the payment of principal or interest on the 2018A Bonds or Bank Bonds or the pledge of and Lien on the Net Revenues at any time for any reason ceases to be valid and binding or fully enforceable on the District as determined by any court or Governmental Authority having appropriate jurisdiction in a final nonappealable judgment; or (ii)(A) the validity or enforceability of any provision of the Liquidity Facility, the 2018A Bonds, the Indenture or the Master Resolution related to the payment of principal or interest on 2018A Bonds or Bank Bonds or the pledge of and Lien on the Net Revenues is contested in writing by an authorized representative of the District; or (B) any Governmental Authority having appropriate jurisdiction over the District makes a finding or ruling or enacts or adopts legislation or issues an executive order or enter a judgment or decree which determines the invalidity or unenforceability of any material provision of the Liquidity Facility, the 2018A Bonds, the Master Resolution or the Indenture related to the payment of principal or interest on 2018A Bonds or Bank Bonds or the pledge of and Lien on the Net Revenues; or (C) the District denies that it has any or further liability or obligation under the Liquidity Facility, the 2018A Bonds, the Indenture or the Master Resolution; or (iii) any material provision of the Liquidity Facility, the 2018A Bonds, the Indenture, the Master Resolution or any other Related Document, other than a provision described in clause (i) and (ii) of this clause (j), at any time for any reason ceases to be valid and binding on the District, or is declared in a final nonappealable judgment by any court having jurisdiction over the District to be null and void, invalid, or unenforceable, or the validity or enforceability thereof is publicly contested by the District;

(k) (i) The District imposes a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of any Parity Debt (as such term is defined in the Liquidity Facility) or any interest on, principal of or premium on any Parity Debt; or (ii) any Governmental Authority having appropriate jurisdiction over the District makes a finding or ruling or enacts or adopts legislation or issues an executive order or enters a judgment or a decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of any Parity Debt or any interest on, principal of or premium on any Parity Debt;

(l) Any of the funds or accounts established pursuant to the Indenture or any moneys or amounts on deposit, or otherwise to the credit of, such funds or accounts become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the District and such stay, writ, judgment, warrant of attachment, execution or similar process is not released, vacated or stayed within 15 days after its issue or levy;

(m) The District fails to pay any Parity Debt or any interest or premium on any Parity Debt, subject to the expiration of any applicable grace or cure period (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) (it being understood by the Liquidity Facility Provider that default, for purposes of this paragraph, does not mean a situation whereby the District contests in good faith its liability with respect to such Parity Debt), or pursuant to the provisions of any resolution, indenture, contract or instrument, the maturity of any Parity Debt will, as a result of the occurrence of a payment default under such resolution, indenture, contract or instrument, be accelerated or required to be prepaid prior to the stated maturity thereof (other than as a result of acceleration of the payment of any such Parity Debt that is owned by a liquidity provider pursuant to the provisions of the related liquidity facility);

(n) One or more final, non-appealable judgments or orders for the payment of money in excess of \$15,000,000 have been rendered against the District and such judgment or order have not been satisfied, stayed or bonded within a period of 60 days from the date on which it was first so rendered;

(o) Each of Moody's and S&P and Fitch (to the extent any such rating agency is then providing a Rating): (i) reduces the Rating below Investment Grade, or (ii) suspends or withdraws such rating, in each case, for credit related reasons only;

(p) Any principal of, or any payment with respect to any Debt of the District or any interest or premium on such Debt is not paid when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) by the District, subject to the expiration of any applicable grace or cure period (it being understood by the Liquidity Facility Provider that default, for purposes of this paragraph (p), does not mean a situation in which the District contests in good faith its liability with respect to such Debt) or, pursuant to the provisions of any resolution, indenture, contract or instrument, the maturity of any Debt as a result of any breach or default under the Liquidity Facility, may be accelerated or may be required to be repaid or prepaid prior to the stated maturity thereof;

(q) Any of Moody's, S&P or Fitch have downgraded its respective Rating to below "A3" (or its equivalent), "A-" (or its equivalent) or "A-" (or its equivalent), respectively, or suspended or withdrawn its Rating, but for credit related reasons only; or

(r) A ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service is rendered to the effect that interest on the 2018A Bonds is includable in the gross income of the holder(s) or owner(s) of such 2018A Bonds and either: (i) the District, after it has been notified by the Internal Revenue Service, does not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted; or (ii) the District challenges such ruling, assessment, notice or advice and a court of law makes a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered.

Remedies.

(a) Upon the occurrence of any Event of Default described in clauses (a), (h), (j)(i), (k), (m), (n) or (o) under the caption “—Events of Default” above (each, an “**Immediate Termination Event**”), the Available Commitment and the obligation of the Liquidity Facility Provider to purchase 2018A Bonds will immediately terminate without notice or demand or any other action on the part of the Liquidity Facility Provider, and thereafter the Liquidity Facility Provider will be under no obligation to purchase 2018A Bonds. Promptly upon obtaining knowledge of any such Immediate Termination Event (whether from the District, the Trustee or otherwise), the Liquidity Facility Provider will give the District and the Trustee written notice of such Immediate Termination Event; provided that the Liquidity Facility Provider will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the termination of the Available Commitment and of the obligations of the Liquidity Facility Provider to purchase 2018A Bonds pursuant to the Liquidity Facility. The District will cause the Trustee to notify all holders of 2018A Bonds of the termination of the Available Commitment and of the termination of the obligation of the Liquidity Facility Provider to purchase the 2018A Bonds.

(b) Upon the occurrence of any event described in clauses (b), (c), (d), (e), (f), (g), (i), (j)(iii), (l), (p), (q) or (r) under the caption “—Events of Default” above (each, a “**Mandatory Tender Event**”), the Liquidity Facility Provider may terminate the Available Commitment by giving a written Notice of Mandatory Tender Event to the Trustee, specifying the date on which the Available Commitment will terminate (the “**Termination Date**”), which will be not less than 30 days from the date of receipt of such notice by the Trustee, and on and after the Termination Date, the Liquidity Facility Provider will be under no further obligation to purchase 2018A Bonds under the Liquidity Facility other than 2018A Bonds which are the subject of a Notice of Request for Purchase pursuant to Section 2.1 of the Liquidity Facility received by the Liquidity Facility Provider prior to the Termination Date, and the District will forthwith, upon written request of the Liquidity Facility Provider, use its best efforts to convert all of the 2018A Bonds to a Fixed Rate in accordance with the Indenture, whereupon all such 2018A Bonds will be remarketed and the Liquidity Facility Provider will be repaid all obligations owed under the Liquidity Facility.

(c) Upon the occurrence of an Event of Default specified in clause (j)(ii) under the caption “—Events of Default” above, the obligation of the Liquidity Facility Provider under the Liquidity Facility to purchase 2018A Bonds will be immediately and automatically suspended, without notice, from the time of the occurrence of such Event of Default, and the Liquidity Facility Provider will be under no further obligation under the Liquidity Facility to purchase 2018A Bonds unless and until the obligation of the Liquidity Facility Provider to purchase 2018A Bonds is reinstated as described below. Promptly upon the occurrence of any Event of Default under clause (j)(ii) under the caption “—Events of Default” above, the Liquidity Facility Provider will notify the District, the Remarketing Agent and the Trustee of such suspension; provided that the Liquidity Facility Provider will not incur any liability or responsibility whatsoever by reason of its failure to give such notice and such failure will in no way affect the suspension of the Available Commitment and of the Liquidity Facility Provider’s obligation to purchase 2018A Bonds pursuant to the Liquidity Facility. The District will promptly, upon receipt of notice from the Liquidity Facility Provider or knowledge of such Event of Default, direct the Trustee to notify all owners of 2018A Bonds of any suspension of the obligation of the Liquidity Facility Provider to purchase 2018A Bonds as a result of the occurrence of such Event of Default. If at any time prior to the earlier of: (i) the termination of the Commitment Period; and (ii) the date that is six months following the suspension of the obligation of the Liquidity Facility Provider to purchase 2018A Bonds: (x) the Event of Default which gave rise to such suspension is cured or ceases to be continuing; and (y) the obligation of the Liquidity Facility Provider to purchase 2018A Bonds under the Liquidity Facility has not otherwise terminated or been suspended as otherwise provided in the Liquidity Facility, then, upon written notice from the Trustee to the Liquidity Facility Provider to such effect, the obligation of the Liquidity Facility Provider to purchase 2018A Bonds under the Liquidity Facility will be automatically reinstated. If the Event of Default which gave rise to the suspension of the obligations of the Liquidity Facility Provider to purchase 2018A Bonds under the Liquidity Facility has not been cured or has not ceased to exist prior to the earlier of the termination of the Commitment Period and the date that is six months after such occurrence, then the

obligations of the Liquidity Facility Provider to purchase 2018A Bonds will, unless previously terminated pursuant to any other provision of the Liquidity Facility, at such time terminate without notice or demand and thereafter, the Liquidity Facility Provider will have no further obligations to purchase any 2018A Bonds.

(d) Upon the commencement against the District of any involuntary case or other proceeding or the occurrence of any event which, with the passage of time, would constitute an Event of Default under clauses (h)(ii) or 7.1(h)(iii) under the caption “—Events of Default” above, the obligation of the Liquidity Facility Provider to purchase 2018A Bonds under the Liquidity Facility will be immediately and automatically suspended, without notice, and the Liquidity Facility Provider will be under no further obligation under the Liquidity Facility to purchase 2018A Bonds, until the bankruptcy, insolvency or similar proceeding referred to in the Liquidity Facility is terminated prior to the court entering an order granting the relief sought in such proceeding. In the event that such proceeding is terminated, then the obligations of the Liquidity Facility Provider under the Liquidity Facility to purchase 2018A Bonds will be automatically reinstated and the terms of the Liquidity Facility will continue in full force and effect (unless the obligation of the Liquidity Facility Provider to purchase 2018A Bonds under the Liquidity Facility has otherwise terminated or there has occurred any other Suspension Event) as if there had been no such suspension.

(e) Upon the occurrence of any Event of Default specified above, the Liquidity Facility Provider may: (i) to the extent permitted by the Related Documents, declare all amounts payable under the Liquidity Facility immediately due and payable; and/or (ii) deliver a written notice to the Trustee and the District that an Event of Default has occurred and is continuing and direct the Trustee and the District, as applicable, to: (x) cause any Bank Bonds to be subject to mandatory tender pursuant to Section 2.16(e)(ii) of the Indenture on or before the 30th day following the giving of such notice; and/or (y) cause any Bank Bonds to be subject to special mandatory redemption pursuant to Section 4.01(e) of the Indenture on or before the 30th day following the giving of such notice, and, in any case, the Liquidity Facility Provider will have all rights, remedies and powers provided by the Liquidity Facility, the Related Documents, applicable law in equity or otherwise, including, without limitation, the right to compel specific performance of the covenants and agreements of the District contained therein, or in the Indenture; provided, however, that so long as such Event of Default does not suspend or terminate the Liquidity Facility Provider’s obligation to purchase 2018A Bonds pursuant to clauses (a), (b), (c) or (d) above, the Liquidity Facility Provider agrees to purchase 2018A Bonds on the terms and conditions of the Liquidity Facility notwithstanding the occurrence of such Event of Default. The provisions of the Liquidity Facility will be a contract with the Liquidity Facility Provider and the duties of the District will be enforceable by the Liquidity Facility Provider by mandamus or other appropriate suit, action, or proceeding in any court of competent jurisdiction.

(f) In addition to the foregoing, upon the occurrence of any Event of Default under the Liquidity Facility, all obligations due and payable under the Liquidity Facility (including any Bank Bonds) will bear interest at the Default Rate (as such term is defined in the Liquidity Facility).

THE DISTRICT

See Appendix A for financial, statistical and operating information regarding the District and its service area and Appendix B for the District’s audited financial statements for the Fiscal Year ended June 30, 2017.

FINANCIAL STATEMENTS

The general purpose financial statements of the District included in Appendix B to this Official Statement have been audited by Davis Farr LLP, Irvine, California, independent certified public accountants (the “**Auditor**”). The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. The Auditor has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the

Auditor with respect to any event subsequent to its report dated November 2, 2017. The District represents that there has been no material change to its financial condition since June 30, 2017 that is not otherwise disclosed in this Official Statement.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the issuance of the 2018A Bonds will be passed upon for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel to the District (“**Bond Counsel**”), and Olivarez Madruga Lemieux O’Neill LLP, Westlake Village, California, General Counsel to the District, for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Los Angeles, California, for the Liquidity Provider by its counsel, Chapman and Cutler LLP, Chicago, Illinois, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the 2018A Bonds for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

General

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 affecting the existence of the District or the titles of its directors or officers to their offices, seeking to restrain or to enjoin the remarketing of the 2018A Bonds or in any way contesting or affecting the validity or enforceability of the 2018A Bonds, the Indenture, the Master Resolution or any action of the District contemplated by any of said documents.

The District is engaged in routine litigation incidental to the conduct of its business. However, the District believes that such litigation, if determined adversely to the District, would not materially adversely affect the ability of the District to pay the principal of, interest on, or Purchase Price of the 2018A Bonds when due.

SDCWA Litigation

In 2010, 2012, 2014, 2016 and 2018, the San Diego County Water Authority (“**SDCWA**”) filed lawsuits against The Metropolitan Water District of Southern California (“**MWD**”) challenging MWD’s adoption of water rates and charges effective January 1, 2011 through January 1, 2020. As an MWD rate payer, the District was named as a real party in interest and participated in all of the lawsuits. The 2010 and 2012 lawsuits were coordinated and proceeded to trial, while the 2014, 2016, and 2018 cases have been stayed by the court, pending final resolution of the 2010 and 2012 cases.

SDCWA alleged in the lawsuits that MWD’s water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleged that such costs should be reclassified and reallocated so that MWD’s remaining members, including the District, bear a larger share of the financial burden. On April 24, 2014, the trial court (San Francisco Superior Court) issued a final statement of decision in favor of SDCWA, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements in MWD’s water rates (in particular, MWD’s System Access Rate and Water Stewardship Rate). The court could not lawfully order MWD to adopt a particular rate structure.

The District was not a defendant with respect to certain other claims, including: (a) a claim for declaratory relief based on MWD’s alleged miscalculation of SDCWA’s preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court could properly award damages. Final judgment was entered by the court on November 18, 2015 in favor of SDCWA and against MWD on most of such other causes of action.

MWD and the member agencies appealed the trial court decision. On June 21, 2017, the California Court of Appeal issued an opinion (*San Diego County Water Authority v. Metropolitan Water District of Southern California* (2017) 12 Cal. App. 5th 1124, as modified on denial of rehearing (July 18, 2017), review denied (Sept. 27, 2017)), reversing the judgment and vacating a peremptory writ of mandate. The Court of Appeal remanded the case back to the trial court for recalculation of damages and entered declaratory relief on the rate structure integrity clause. The Court of Appeal also ordered a redetermination of the prevailing party and that the parties bear their respective costs and attorney fees incurred on the appeal and cross-appeal.

On appeal, the central issue in dispute was cost allocation of charges imposed by MWD for transporting (“**wheeling**”) water purchased from a third party. The court held that the inclusion of MWD’s system-wide transportation costs in the calculation of its wheeling rate, including charges paid to the State Water Project, did not violate the wheeling statutes or the terms of the Exchange Agreement. The court affirmed the trial court’s finding that the wheeling rate cannot include MWD’s Water Stewardship Rate (which was designed to fund a water conservation program) because the Water Stewardship Rate is supply-related, not transportation-related, and its inclusion as a component of the wheeling rate and Exchange Agreement transportation rates was unlawful. The Court of Appeal also found that SDCWA is entitled to recover the overcharges that resulted from inclusion of such charges in MWD’s water rates.

As a result of the Court of Appeal’s decision, and depending upon the actions of the trial court on the issues that were remanded, the District’s MWD water charges could increase. Because the District’s policy is to pass MWD water rate increases through to imported water customers, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay the 2018A Bonds.

THE REMARKETING AGENT

Citigroup Global Markets Inc. serves as the remarketing agent for the 2018A Bonds (the “**Remarketing Agent**”) and performs the duties of a remarketing agent as required under the provisions of the Indenture pursuant to a Remarketing Agreement, dated as of September 1, 2018 (as amended, the “**Remarketing Agreement**”), by and between the Remarketing Agent and the District.

Subject to the terms and conditions set forth in the Remarketing Agreement, the Remarketing Agent has agreed to perform the duties of a remarketing agent under the Indenture and to use its best efforts in remarketing the 2018A Bonds. The Remarketing Agent may at any time resign and be discharged of its duties and obligations under the Indenture by giving notice to the District, the Trustee, the Tender Agent and the Liquidity Facility Provider. Except as otherwise provided in the Remarketing Agreement, such resignation will take effect on the 60th day after the receipt by the District of the notice of resignation. The Remarketing Agent may be removed at any time on at least 45 days prior written notice (or such lesser period agreed to in the Remarketing Agreement), by an instrument signed by the District and approved by the Liquidity Facility Provider, and delivered to the Remarketing Agent, the Trustee and the Tender Agent. Notwithstanding the provisions described in this paragraph, the removal of the Remarketing Agent will not take effect prior to the date that a successor Remarketing Agent has been appointed by the District and approved by the Liquidity Facility Provider, if any, and has accepted such appointment, except in the case where: (i) the Remarketing Agent provides 30 days’ notice to the District, Trustee, Tender Agent and Liquidity Facility Provider that its fees have not been paid; or (ii) 90 days after receipt by the District of the Remarketing Agent’s notice of resignation, a successor Remarketing Agent has not been appointed by the District, and consented to by the Liquidity Facility Provider, nor has such appointment been accepted by a successor Remarketing Agent, in both of which cases the Remarketing Agent may terminate its Remarketing Agreement with the District without a successor being appointed. Any failure of the Liquidity Facility Provider to respond to a notice of a successor Remarketing Agent within 30 days after such notice will be deemed to be a consent to such appointment.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the 2018A Bonds to provide certain financial information and operating data relating to the District by 210 days following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "**Annual Report**"), and to provide notices (each, an "**Event Notice**") of the occurrence of certain enumerated events. The Annual Report and any Event Notice will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("**EMMA**"), which can be found on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and any Event Notice is set forth in Appendix F. These covenants have been made in order to assist the Remarketing in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the "**Rule**").

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

(1) The Annual Report for Fiscal Year 2013 for the District's Parity Obligations was filed 4 days after the date required for such filing, but prior to December 31 of the applicable calendar year.

(2) The Annual Reports for Fiscal Years 2013 and 2015 for the Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2005A and Series 2009A (which are general obligations of the District) were filed after the dates required for such filings.

(3) Of the approximately 50 outstanding debt issuances of community facilities districts created by the District (the "**CFD Bonds**"), one report for Fiscal Year 2013 was filed after the dates required for such filings. Although the District is not the "obligated person" for purposes of the Rule with respect to the CFD Bonds, District staff is responsible for preparing the annual reports for the CFD Bonds.

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

(5) The District filed notice of a February 2016 upgrade to the ratings of its Parity Obligations and Subordinate Obligations by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), more than ten Business Days after such upgrade occurred.

(6) In the last five Fiscal Years, the District's bond trustees did not timely file notice of the redemption or defeasance of certain District obligations and certain CFD Bonds as instructed by the District. All such event notices have been filed as of the date of this Official Statement.

On April 30, 2014, the District's Board adopted continuing disclosure policies and procedures. Such policies and procedures were updated and incorporated into the District's Comprehensive Debt Management Policy on January 18, 2017. See Appendix A under the caption "THE DISTRICT—District Debt Policy." In addition, District staff have undergone training to ensure compliance with continuing disclosure undertakings in the future.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2018A 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. In the further opinion of Bond Counsel, interest on the 2018A Bonds is exempt from State personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2018A Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that 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 2018A Bonds to assure that interest on the 2018A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2018A Bonds. The District has covenanted to comply with all such requirements.

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 2018A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2018A Bonds might be affected as a result of such an audit of the 2018A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2018A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2018A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2018A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2018A BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2018A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2018A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2018A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2018A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2018A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the 2018A Bonds terminates upon their delivery and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the 2018A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2018A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2018A Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2018A Bonds and the accrual or receipt of interest on the 2018A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2018A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2018A Bonds.

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

FINANCIAL ADVISOR

The District has retained PFM Financial Advisors LLC, Los Angeles, California, as financial advisor (the “**Financial Advisor**”) in connection with the issuance of the 2018A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

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

RATINGS

S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, is expected to assign the 2018A Bonds: (i) a short term rating of “A-1” based on the delivery of the Liquidity Facility by the Bank on the date of issuance of the 2018A Bonds; and (ii) the underlying unenhanced long term rating of “AA+”.

Fitch Ratings, Inc. is expected to assign the 2018A Bonds: (i) a short term rating of “F1+” based on the delivery of the Liquidity Facility by the Bank on the date of issuance of the 2018A Bonds; and (ii) the underlying unenhanced long term rating of “AA+”.

No application has been made to any other rating agency for the purpose of obtaining any additional ratings on the 2018A Bonds. The above-described credit ratings given to the 2018A Bonds reflect only the views of the respective rating agencies, and an explanation of the significance of such ratings may be obtained from the applicable rating agency. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies. There is no assurance that any credit rating given to the 2018A Bonds will continue for any period of time or that a credit rating given to the 2018A Bonds will not be lowered or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of a credit rating given to the 2018A Bonds may have an adverse effect on the market price of the 2018A Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The District has covenanted in the Continuing Disclosure Certificate to file notices of any rating changes on the 2018A Bonds with EMMA. See the caption “CONTINUING DISCLOSURE” and Appendix F. Notwithstanding such covenant, information relating to rating changes on the 2018A Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date by which the District is obligated to file a notice of rating change. Purchasers of the 2018A Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the 2018A Bonds after the remarketing of the 2018A Bonds.

In providing a rating on the 2018A Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the Indenture or the Master Resolution. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

UNDERWRITING

Citigroup Global Markets Inc. (the “**Underwriter**”), has agreed to purchase the 2018A Bonds at a price of \$94,327,070.42 (being the principal amount of the 2018A Bonds, less an Underwriter’s discount of \$127,929.58). The Contract of Purchase for the 2018A Bonds (the “**Bond Purchase Agreement**”), pursuant to which the 2018A Bonds are being purchased by the Underwriter, provides that the Underwriter will purchase all of the 2018A Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter may offer and sell the 2018A Bonds to certain dealers and other special purchasers at prices different from the prices stated on the inside front cover page of this Official Statement and to the public at prices other than the par value thereof

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

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

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

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APPENDIX A

EASTERN MUNICIPAL WATER DISTRICT

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THE DISTRICT

Organization, Purpose and Powers

Eastern Municipal Water District (the “**District**”) was organized under the Municipal Water District Law, Division 20 of the Water Code of the State of California, as amended (the “**Law**”), on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. The District’s service area is primarily located in the westerly third of Riverside County. Prior to the District’s formation, the local water supply largely consisted of groundwater wells. Presently, the District imports approximately 49% of its water supply (including approximately 75% of its potable water supply) from The Metropolitan Water District of Southern California (“**MWD**”) and derives approximately 51% of its water supply (including approximately 25% of its potable water supply) from local sources, including groundwater, desalinated water and recycled water. In general, the District supplies approximately 50% of the water consumed within the District’s service area each year; the remainder is provided by private groundwater wells and other agencies.

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

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

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

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

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

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

County. The proceeds of such share constitute Water and Sewer Revenues and are available to pay Maintenance and Operation Costs of the Water and Sewer System. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.”

The District is a member agency of MWD and is currently entitled to have one District representative on MWD’s Board of Directors (the “**MWD Board**”). The District annexed into MWD on July 20, 1951, primarily to ensure a reliable water supply during periods of drought and to settle then-outstanding claims for water seepage into the San Jacinto Tunnel. The District was named “Eastern” as it was the most easterly service area within MWD.

Board of Directors and Management

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

David J. Slawson – Board President. A Board member since January 1995, President Slawson previously served as Board President from January 2007 to January 2009. Both a licensed Professional Land Surveyor and licensed California attorney, he is a former member of the California Department of Consumer Affairs Board of Registration for Professional Engineers and Land Surveyors. President Slawson is president of Winchester Associates, a civil engineering and land surveying firm. A longtime resident of Moreno Valley, President Slawson is also a former Moreno Valley city planning commissioner. President Slawson serves on the Board’s Operations/Engineering Committee. He also serves as the liaison with Western Municipal Water District, is the alternate commissioner on the Santa Ana Watershed Project Authority (“**SAWPA**”) and serves as a representative to the Western Region Council of Governments. His current Board term expires in January 2019.

Ronald W. Sullivan – Board Vice President. A Board member since January 2003, Ronald W. Sullivan has a wide variety of experience with city and county organizations, including as chair of the Riverside County Planning Commission, City of Hemet Planning Commission and Riverside County Aviation Commission. Mr. Sullivan previously served on the staff of former State Senator Marian Bergeson. A licensed general contractor, he is experienced in real estate planning, design, development, and construction. He is an owner in Sullivan & Sullivan R.E. Group Inc. Mr. Sullivan serves on the Planning and Operations/Engineering Committees. He is also the past chair of SAWPA and continues as a commissioner from the District. He represents the District on the Association of California Water Agencies (“**ACWA**”) Local Government Committee, and the Western Riverside Water and Wastewater Financing Authority. He is also liaison to Western Municipal Water District and the Pechanga Tribal Committee. His current Board term expires in January 2021.

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

Philip E. Paule – Director. A Board member since 2007, Philip E. Paule was re-elected to another four-year term in 2014. He is a graduate of California State University, Fullerton and has worked at various levels of government for the past two decades. Mr. Paule served as Board President from 2013 to 2014 and currently serves on the Board’s Administrative and Deferred Compensation Administrative Oversight Committees, as well as the Ad Hoc Committee for the Lake Hemet Municipal Water District. He currently serves on the Board of the Hemet/San Jacinto Watermaster. He also serves as a liaison to Elsinore Valley Municipal Water District and the Soboba Tribal Committee. Mr. Paule is on the Executive Committee of CalDesal. Unchallenged in his last election, his current Board term will expire in January 2019.

Randy A. Record – Director. A Board member since January 8, 2001, Randy A. Record has previously served a two-year term as Board President. Mr. Record has been active in the San Jacinto farming community for over three decades. A 1976 graduate of California State Polytechnic University, San Luis Obispo, Mr. Record holds a Bachelor of Science degree in agricultural management, continuing his education in irrigation management. Beginning in January 2003, he has represented the District on the MWD Board and is its current Chair as well as a member of its Executive Committee. He is also a member of MWD’s Water Planning and Stewardship Committee, Engineering and Operations Committee, Finance and Insurance Committee, Legal and Claims Committee, Communications and Legislation Committee, Organization Personnel and Technology Committee, Audit and Ethics Committee, Special Committee on Bay-Delta, Agriculture and Industry Relations Committee, Integrated Resources Planning Committee and Real Property and Asset Management Committee. Mr. Record is a past President of ACWA. His current Board term expires in January 2021.

Management.

Paul D. Jones II, P.E. – General Manager. Paul D. Jones II, General Manager, was appointed general manager in July 2011 and heads a staff of approximately 601 employees. Previously, Mr. Jones was the General Manager of the Irvine Ranch Water District (“**IRWD**”) from 1999 to 2011. Under his leadership, IRWD became known for diverse and highly reliable water supply and storage portfolios. While at IRWD, he was instrumental in the development of creative urban runoff treatment programs and natural resource management at the San Joaquin Marsh and Wildlife Sanctuary. Like the District, IRWD operates extensive sewer and recycled water systems. Prior to his service at IRWD, Mr. Jones was the General Manager of both West Basin Municipal Water District and Central Basin Municipal Water District in Carson, California. There he was responsible for the operation of two wholesale water districts governed by separate elected boards. Mr. Jones previously worked for a private environmental engineering firm and served as senior engineer and assistant to the general manager of Municipal Water District of Orange County. Mr. Jones also served as director of regional infrastructure planning and manager of infrastructure project engineering with The Irvine Company. Mr. Jones received his Bachelor of Science degree in civil engineering with an emphasis in water resources from California State Polytechnic University, Pomona and is a registered professional engineer in the State of California.

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

Jeff Wall – Assistant General Manager, Operations and Maintenance. Jeff Wall, Assistant General Manager, Operations and Maintenance, began his career with the District in 1988. Mr. Wall has over 29 years of experience in engineering and management and is responsible for water system operations, water reclamation, and maintenance functions of the District. His executive management experience includes five years as the Assistant General Manager/Chief Engineer for Lake Hemet Municipal Water District and seven years on the District’s executive team. Mr. Wall received a Bachelor of Science degree in Electrical Engineering Technology from LeTourneau University and a Masters of Public Administration degree from California State University, San Bernardino. He is a registered professional engineer in the State of California.

Joe Mouawad – Assistant General Manager, Planning, Engineering, and Construction. Joe Mouawad, Assistant General Manager, Planning, Engineering, and Construction, began his career with the District in August 2006. Mr. Mouawad has 25 years of professional engineering experience in both the public and private sectors. He served as Senior Director of Engineering with the District for ten years before he was promoted to Assistant General Manager in December 2016. He has been responsible for all engineering services performed by the District, including the execution of its \$460 million five-year water, wastewater and recycled water capital improvements program. Mr. Mouawad is a registered professional engineer in the State of California, with a Bachelor of Science degree in Civil Engineering from California State Polytechnic University, Pomona and a Masters of Science degree in Civil Engineering from University of California, Los Angeles.

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

Employee Relations

As of July 1, 2018, the District had 601 employees, of which 17 were in the Executive branch, 172 were in the Administrative Services branch, 256 were in the Operations and Maintenance branch and 156 were in the Engineering, Planning and Construction branch. The District’s single bargaining unit, which includes 449 employees, is represented by the International Brotherhood of Electrical Workers Local 1436 (the “**Union**”). The District’s memorandum of understanding (the “**MOU**”) with the Union was approved and came into effect in July 2016, and expires on December 31, 2019. The MOU includes a lower tier of retiree medical benefits for future employees, additional employee and retiree contributions to monthly medical premiums and additional employee pension contributions. See the caption “**HISTORICAL FINANCIAL OPERATIONS—Pension Plan.**” Labor and management maintain a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The District has never experienced a strike, slowdown or work stoppage.

Insurance Programs

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

Under this program, the District is responsible for all general liability claims and for developing and maintaining a self-insurance reserve fund of \$1,000,000. This insurance expense is proportionately allocated among the operating funds of the District in an amount adequate to maintain this level of reserve. The District requires all contractors, sub-contractors and vendors to maintain a minimum of \$1,000,000 general liability insurance for operations pertaining to District business, together with additional insured endorsements.

The Board established its self-insurance program for public liability with the assistance of an insurance consultant. An annual actuarial reserve review is conducted for this program. The most recent review in February 2018 concluded that such program was adequate for its purposes.

Excess General Liability Insurance Coverage. Effective June 2016, the Board approved excess general liability, public officials/management liability, and auto liability insurance coverage, with a \$30,000,000 coverage limit. This excess coverage is combined with the District's self-insured retention level and the auto primary coverage of \$1,000,000, subject to nominal deductibles.

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

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

The District is currently undertaking a revised seismic study using an updated hazard analysis. Such study is expected to be complete in 2018.

Property Insurance Coverage. The District maintains blanket Special Form insurance coverage for its buildings and equipment, with policy limits of \$651,303,000, excluding earthquake. Flood insurance is also provided on a blanket basis with a limit of \$1,000,000. The District's insurance program is consistent, in the District's judgment, with the District's covenant as to insurance contained in the Master Resolution, which covenant provides in part that the District is not required to procure or maintain such insurance unless such insurance is commercially available at a reasonable cost. Contractors and/or the District are required to provide Course of Construction insurance coverage during the period of construction.

Seismic Considerations

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

This study indicated that, although the District is bounded by two active fault zones, the San Jacinto fault zone to the northeast and the Elsinore fault zone to the southwest, most of the water reclamation facility structures are expected to experience relatively moderate damage in a 7.5 magnitude earthquake. The impact of lesser magnitude events is expected by the District to be temporary, localized and reparable. District facilities are designed to withstand earthquakes with minimal damage. The water reclamation facilities and main offices are located on relatively level terrain, with firm alluvium composition, minimizing the potential for earthquake losses. The District has taken steps to reduce the impacts of fault rupture on major pipelines and maintains an inventory of repair items and large diameter pipe for such contingencies. The fresh water storage tanks are built on cut slopes and largely consist of large-diameter steel tanks of modest height with low height-to-diameter ratios. Most of the large tanks have an articulated large diameter inlet/outlet piping connection with flexible expansion couplings and are equipped with seismic control valves which will preserve the storage capacity during a large seismic event. Earthquake loads are taken into consideration in the design of project structures

such as pumping plants and interceptor facilities. To date, no District facilities have suffered any significant earthquake damage.

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

The District has prepared a Hazard Mitigation Plan, which in part gives an “Earthquake Hazard Profile.” The profile includes a risk summary of probability and frequency, consequence and severity, vulnerability, and a hazard risk ranking score. In June 2017, the District completed a revision of the Hazard Mitigation Plan and has submitted the revised plan to the State of California and the Federal Emergency Management Agency for approval.

Debt Structure of the District

Parity Obligations. Pursuant to the Master Resolution, the District has issued revenue bonds which are secured by a pledge of and lien on Net Water and Sewer Revenues and constitute “Parity Obligations” under the Master Resolution. The Parity Obligations are payable from Net Water and Sewer Revenues on a senior basis to the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018A (the “2018A Bonds”).

The following table summarizes the outstanding Parity Obligations under the Master Resolution as of July 1, 2018.

**TABLE 1
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Parity Obligations**

<i>Name of Issue</i>	<i>Original Amount Issued</i>	<i>Principal Outstanding as of July 1, 2018</i>	<i>Final Scheduled Maturity Date</i>
Refunding Water and Sewer Revenue Bonds, Series 2011A	<u>\$56,255,000</u>	<u>\$9,275,000</u>	July 1, 2020
Total	<u>\$56,255,000</u>	<u>\$9,275,000</u>	

Source: Eastern Municipal Water District.

Subordinate State Contracts. The District has entered into several contracts (each, a “State Contract”) to fund certain costs related to design and construction of District infrastructure in accordance with the terms of each State Contract. Each State Contracts was entered into with the State of California Department of Water Resources (“DWR”) or the State Water Resources Control Board (the “SWRCB”). Under each State Contract, the District drew upon available funds in increments as costs were incurred to finance projects. Repayment of the amounts borrowed is on a semi-annual basis and usually begins approximately one year following completion of the related project.

The District’s obligations to make State Contract repayments are payable from Net Revenues on parity with the 2018A Bonds. The following table sets forth the State Contracts related to completed projects which the District is currently repaying:

TABLE 2
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate State Contract Obligations Relating to Completed Projects

	<i>Loan Description</i>	<i>Project</i>	<i>Term</i>	<i>Interest Rate (%)</i>	<i>Total Debt Amount (Original)</i>	<i>Remaining Debt Balance (Outstanding)⁽¹⁾</i>	<i>Repayment End Date</i>
1.	Safe Drinking Water State Revolving Fund Loan	Hemet Water Filtration Plant	20 years	0.00%	\$ 42,098,388	\$ 19,564,157	7/1/2028
2.	State Revolving Fund No. 08-845-550 (Moreno Valley RWRf - SCATT)	Moreno Valley RWRf – SCATT	20 years	1.00	38,302,852	29,424,761	7/5/2032
3.	State Revolving Fund No. 09-809-550-1 (Moreno Valley RWRf - APAD)	Moreno Valley RWRf – APAD	20 years	0.42	43,908,096	35,418,153	3/16/2033
4.	State Revolving Fund No. C-06-7831-110 ⁽²⁾	Recycled Water Pond Expansion and Optimization	30 years	1.00	11,246,300	7,798,170	11/30/2046
5.	Water Recycling Project No. C-06-8047-110 ⁽³⁾	Temecula Valley Regional Wastewater Recovery Facility Expansion	30 years	1.80	<u>95,264,880</u>	<u>40,000,000</u>	9/30/2048
	Total				<u>\$ 230,820,516</u>	<u>\$ 132,205,240</u>	

⁽¹⁾ As of July 1, 2018, except for the loan described in Row 5, which reflects the expected outstanding amount when all draws are made upon this loan. See footnote (3) below.

⁽²⁾ \$3,448,130 of the amount of this State Contract constitutes a grant, contingent upon District repayment of the remaining principal amount plus interest.

⁽³⁾ \$15,000,000 of the amount of this State Contract constitutes a grant, contingent upon completion of the financed project. The District does not expect to draw on the full approved amount of \$95,264,880, as a portion of the project will be funded from proceeds of the 2017D Bonds. See the caption “—Subordinate Obligations.”

Source: Eastern Municipal Water District.

The District has also entered into an Installment Sale Agreement (100% Principal Forgiveness), dated July 12, 2016 (the “**2016 Grant**”), with the SWRCB. The 2016 Grant, which is in the maximum principal amount of \$2,986,500, was entered into to finance the construction of a water distribution system for a community that was consolidated into the District’s service area. The system was fully constructed and is currently operational. Subject to final approval of the water distribution system from the SWRCB upon the completion of construction, the District will not be obligated to repay the 2016 Grant. In the event that the District becomes obligated to repay the 2016 Grant, repayment will be made over a two-year period at an interest rate of 12% from Net Revenues on parity with the 2018A Bonds.

The District has also entered into an additional State Contract (the “**Alessandro Ponds Contract**”) in the approximate amount of \$795,400 to finance the Alessandro Ponds Recycled Water Storage System, which is designed to increase the District’s recycled water pond storage capacity so that recycled water need not be discharged in winter months when demand is low and can be sold in summer months when demand is high. See footnote (1) to Table 9 under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production” and the caption “THE CAPITAL IMPROVEMENT PLAN.” The project is also expected to be funded in part from District reserves. Payments under the Alessandro Ponds Contract are expected to be forgiven in full, assuming that the District completes the project on time in accordance with plans approved by the SWRCB. Projected debt service figures shown in Tables 4 and 20 do not reflect the payment under the Alessandro Ponds Contract.

Subordinate Obligations. In addition to the Interest Rate Swap Agreements described below under the caption “—Interest Rate Swap Agreements” and the State Contracts described above under the caption “—Subordinate State Contracts,” District obligations that are payable from Net Revenues on parity with the 2018A Bonds (the “**Subordinate Obligations**”) are set forth in the following table.

TABLE 3
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate Obligations

<i>Name of Issue</i>	<i>Original Amount Issued</i>	<i>Principal Outstanding as of July 1, 2018</i>	<i>Final Scheduled Maturity Date</i>
Refunding Water and Wastewater Revenue Bonds, Series 2015A (the “ 2015A Bonds ”) ⁽¹⁾	\$ 50,000,000	\$ 50,000,000	July 1, 2038
Water and Wastewater Revenue Bonds, Series 2015B (the “ 2015B Bonds ”) ⁽²⁾	74,430,000	74,430,000	July 1, 2046
Refunding Water and Wastewater Revenue Bonds, Series 2016A (the “ 2016A Bonds ”)	209,230,000	195,060,000	July 1, 2045
Water and Wastewater Revenue Bonds, Series 2016B (the “ 2016B Bonds ”) ⁽³⁾	124,925,000	122,275,000	July 1, 2035
Refunding Water and Wastewater Revenue Bonds, Series 2017A (the “ 2017A Bonds ”) ⁽⁴⁾	54,810,000	54,810,000	July 1, 2035
Refunding Water and Wastewater Revenue Bonds, Series 2017B (the “ 2017B Bonds ”) ⁽⁴⁾	50,225,000	50,225,000	July 1, 2038
Refunding Water and Wastewater Revenue Bonds, Series 2017C (the “ 2017C Bonds ”)	17,515,000	17,515,000	July 1, 2023
Water and Wastewater Revenue Bonds, Series 2017D (the “ 2017D Bonds ”) ⁽⁵⁾	102,500,000	102,500,000	July 1, 2047
Refunding Water and Wastewater Revenue Bonds, Series 2017E (the “ 2017E Bonds ”) ⁽⁶⁾	147,970,000	147,305,000	July 1, 2046
Refunding Water and Wastewater Revenue Bonds, Series 2017F (the “ 2017F Bonds ”) ⁽⁷⁾	47,545,000	47,545,000	July 1, 2046
Total	<u>\$ 879,150,000</u>	<u>\$ 861,665,000</u>	

⁽¹⁾ The District has entered into a liquidity facility related to these obligations with The Toronto-Dominion Bank, acting through its New York Branch, expiring on May 21, 2021. Amounts payable thereunder constitute Subordinate Obligations payable from Net Revenues on parity with the 2018 Bonds.

⁽²⁾ The 2015B Bonds were issued by the Eastern Municipal Water District Financing Authority (the “**EMW DFA**”), a joint exercise of powers authority of which the District is a member. The District’s obligations under an installment purchase agreement with the EMW DFA (the “**2015B IPA**”), which secure the 2015B Bonds, are payable from Net Revenues on parity with the 2018A Bonds.

⁽³⁾ The 2016B Bonds were issued by the EMW DFA. The District’s obligations under an installment purchase agreement with the EMW DFA (the “**2016B IPA**”), which secure the 2016B Bonds, are payable from Net Revenues on parity with the 2018A Bonds.

⁽⁴⁾ The District has entered into a liquidity facility related to these obligations with Sumitomo Mitsui Banking Corporation expiring on April 12, 2022. Amounts payable thereunder constitute Subordinate Obligations payable from Net Revenues on parity with the 2018A Bonds.

⁽⁵⁾ The 2017D Bonds were issued by the EMW DFA. The District’s obligations under an installment purchase agreement with the EMW DFA (the “**2017D IPA**”), which secure the 2017D Bonds, are payable from Net Revenues on parity with the 2018A Bonds.

⁽⁶⁾ The District maintains an Interest Rate Swap Agreement with WFB related to these obligations. Upon the refunding of these obligations from proceeds of the 2018A Bonds and the District’s Refunding Water and Wastewater Revenue Bonds, Series 2018B (the “**2018B Bonds**”) (as discussed in the Official Statement under the captions “INTRODUCTION” and “THE REFUNDING PLAN”), this Interest Rate Swap Agreement is expected to hedge the 2018B Bonds. See the caption “—Interest Rate Swap Agreements.” The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on parity with payment of the 2018A Bonds and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a basis immediately subordinate to the 2018A Bonds.

⁽⁷⁾ The District maintains an Interest Rate Swap Agreement with WFB related to these obligations. Upon the refunding of these obligations from proceeds of the District’s Refunding Water and Wastewater Revenue Bonds, Series 2018C (the “**2018C Bonds**”) (as discussed in the Official Statement under the caption “INTRODUCTION”), this Interest Rate Swap Agreement is expected to partially hedge the 2018C Bonds. See the caption “—Interest Rate Swap Agreements.” The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on parity with payment of the 2018A Bonds and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a basis immediately subordinate to the 2018A Bonds.

Source: Eastern Municipal Water District.

Other Subordinate Obligations. Certain amounts payable to banks that provide credit or liquidity facilities in connection with certain District obligations constitute Subordinate Obligations which are payable from Net Revenues on parity with the 2018A Bonds. No such amounts are currently outstanding.

Interest Rate Swap Agreements.

General. As of July 1, 2018, the District had outstanding the following interest rate swap agreements (collectively, the “**Interest Rate Swap Agreements**”) with the following counterparties (collectively, the “**Swap Providers**”) in the aggregate notional amount of \$68,570,000:

<i>Related Bond Issue</i>	<i>Notional Amount</i>	<i>Swap Provider</i>	<i>District Pays</i>	<i>District Receives</i>	<i>Scheduled Maturity/Termination Date</i>
Refunding Water and Wastewater Revenue Bonds, Series 2017E (the “ 2017E Bonds ”) ⁽¹⁾	\$53,820,000	Wells Fargo Bank, National Association (“ WFB ”)	3.10 %	66% of 1 month LIBOR	7/1/2030
Refunding Water and Wastewater Revenue Bonds, Series 2017F (the “ 2017F Bonds ”) ⁽²⁾	14,750,000	WFB	5.125	SIFMA	7/1/2020

⁽¹⁾ As discussed in the Official Statement under the caption “THE REFUNDING PLAN,” these obligations are expected to be refunded on or about the date of issuance of the 2018A Bonds. Upon such refunding, this Interest Rate Swap Agreement is expected to hedge the 2018B Bonds, which are expected to be issued simultaneously with the 2018A Bonds. See the Official Statement under the caption “INTRODUCTION.”

⁽²⁾ As discussed in the Official Statement under the caption “INTRODUCTION,” these obligations are expected to be refunded on or about the date of issuance of the 2018A Bonds. Upon such refunding, this Interest Rate Swap Agreement is expected to partially hedge the 2018C Bonds, which are expected to be issued simultaneously with the 2018A Bonds.

Source: Eastern Municipal Water District.

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

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

Pursuant to the terms of the Interest Rate Swap Agreements, the District is required to post collateral in favor of the applicable counterparty to the extent that the District’s total exposure for termination payments to such counterparty exceeds the threshold specified in the applicable Interest Rate Swap Agreement. Conversely, the counterparties are required to release collateral to the District as market conditions become favorable to the District and may be required to post collateral for the benefit of the District to the extent that such counterparty’s total exposure for termination payments to the District exceeds the threshold specified in the applicable Interest Rate Swap Agreement. As of July 1, 2018, the District has never been required to post collateral under either Interest Rate Swap Agreement. However, there can be no assurance that the District will not be required to post collateral in the future. Collateral deposited by the District would be held by the applicable counterparty or an agent therefor and a bankruptcy of any counterparty holding collateral posted by

the District could adversely affect the return of the collateral to the District. Moreover, posting collateral limits the District's liquidity. If the District were required to post significant collateral in the future, the District's liquidity may be adversely affected.

From time to time, the District may enter into additional interest rate swap agreements with security and payment provisions as determined by the District and subject to any conditions contained in the indenture of trust pursuant to which the 2018A Bonds are being issued (the "**2018A Indenture**"). As of July 1, 2018, the mark-to-market value of the Interest Rate Swap Agreements was negative \$5,402,188 with respect to the Interest Rate Swap Agreement relating to the 2017E Bonds (the "**LIBOR Swap**") and negative \$810,420 with respect to the Interest Rate Swap Agreement relating to the 2017F Bonds (the "**SIFMA Swap**").

LIBOR Swap. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the LIBOR Swap, is payable from Net Revenues on parity with the 2018A Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to subordinate obligations of the District, the LIBOR Swap may be terminated and the District may be required to make a termination payment to WFB. Pursuant to the LIBOR Swap, any such termination payment owed by the District would be payable from Net Revenues on basis immediately subordinate to the 2018A Bonds.

The 2018B Bonds mature in 2030, which is the year of scheduled termination of the LIBOR Swap. The outstanding principal amount of the 2018B Bonds matches the notional amount of the LIBOR Swap and, as a result, the 2018B Bonds will be hedged by the LIBOR Swap.

SIFMA Swap. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the SIFMA Swap, is payable from Net Revenues on parity with the 2018A Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to subordinate obligations of the District, the SIFMA Swap may be terminated and the District may be required to make a termination payment to WFB. Any such termination payment owed by the District pursuant to the SIFMA Swap would be payable from Net Revenues on a basis immediately subordinate to the 2018A Bonds.

The 2018C Bonds mature in 2046, which is later than the scheduled termination date of the SIFMA Swap in 2020. Accordingly, the outstanding principal amount of the 2018C Bonds does not match the notional amount of the SIFMA Swap and, as a result, a portion of the 2018C Bonds will be unhedged. Such unhedged portion will grow each year as the notional amount of the SIFMA Swap declines until the 2020 termination of the SIFMA Swap, after which time none of the 2018C Bonds will be hedged.

Summary of Debt Service. The following table summarizes projected debt service with respect to: (i) the District's outstanding Parity Obligations; and (ii) the 2018A Bonds and other Subordinate Obligations.

TABLE 4
EASTERN MUNICIPAL WATER DISTRICT
Estimated Debt Service Schedule

<i>Period Ending June 30</i>	<i>Total Parity Obligation Debt Service⁽¹⁾</i>	<i>Subordinate Obligations</i>					<i>Total Debt Service⁽⁵⁾</i>
		<i>2018A Bonds Principal</i>	<i>2018A Bonds Interest⁽²⁾</i>	<i>Subordinate Obligation Debt Service⁽³⁾</i>	<i>Subordinate State Contracts Debt Service⁽⁴⁾</i>		
2019	\$ 4,881,500	\$ -	\$ 2,240,683	\$ 42,143,052	\$ 6,736,819	\$ 56,002,054	
2020	4,875,625	-	3,305,925	40,929,842	6,824,930	55,936,322	
2021	4,868,750	-	3,305,925	40,828,003	8,562,187	57,564,865	
2022	-	-	3,305,925	47,020,321	8,562,187	58,888,433	
2023	-	-	3,305,925	47,026,192	8,562,187	58,894,304	
2024	-	-	3,305,925	46,712,735	8,562,187	58,580,848	
2025	-	50,000	3,304,321	49,185,515	8,562,187	61,102,023	
2026	-	50,000	3,302,571	49,187,414	8,562,187	61,102,172	
2027	-	55,000	3,300,660	49,191,122	8,562,187	61,108,970	
2028	-	55,000	3,298,735	49,167,320	8,562,187	61,083,243	
2029	-	60,000	3,296,650	50,243,698	7,509,728	61,110,076	
2030	-	60,000	3,294,550	51,301,225	6,457,268	61,113,042	
2031	-	70,000	3,292,129	51,292,185	6,457,268	61,111,582	
2032	-	-	3,291,925	51,294,019	6,457,268	61,043,212	
2033	-	-	3,291,925	51,290,763	6,457,268	61,039,955	
2034	-	-	3,291,925	53,265,088	2,041,169	58,598,182	
2035	-	-	3,291,925	55,709,783	2,041,169	61,042,878	
2036	-	-	3,291,925	55,706,310	2,041,169	61,039,405	
2037	-	-	3,291,925	53,347,927	2,041,169	58,681,021	
2038	-	-	3,291,925	53,606,119	2,041,169	58,939,213	
2039	-	-	3,291,925	53,602,765	2,041,169	58,935,859	
2040	-	10,370,000	2,959,221	38,812,421	2,041,169	54,182,811	
2041	-	10,735,000	2,584,560	38,824,438	2,041,169	54,185,167	
2042	-	11,125,000	2,196,323	38,829,996	2,041,169	54,192,488	
2043	-	11,515,000	1,794,435	38,840,019	2,041,169	54,190,623	
2044	-	11,925,000	1,378,256	33,194,800	2,041,169	48,539,226	
2045	-	12,350,000	947,246	33,200,517	2,041,169	48,538,932	
2046	-	12,785,000	501,040	33,209,623	2,041,169	48,536,832	
2047	-	13,250,000	38,646	33,214,033	2,041,169	48,543,848	
2048	-	-	-	46,734,875	2,041,169	48,776,044	
TOTAL⁽⁴⁾	\$ 14,625,875	\$ 94,455,000	\$ 80,595,051	\$ 1,376,912,117	\$ 146,015,586	\$ 1,712,603,629	

(1) See the caption “—Parity Obligations.”

(2) Interest on the 2018A Bonds is calculated at an assumed interest rate of 3.50% per annum. Differs from the projected debt service set forth in Table 20 as a result of differing interest rate assumptions.

(3) Excludes debt service on 2018A Bonds and State Contracts. Assumes issuance of \$53,485,000 principal amount of 2018B Bonds and \$47,780,000 principal amount of 2018C Bonds on or about the date of issuance of the 2018A Bonds. Interest on the 2018B Bonds is calculated at the LIBOR Swap rate of 3.10% per annum. Interest on the hedged portion of the 2018C Bonds is calculated at the SIFMA Swap rate of 5.125% per annum through the termination date of the SIFMA Swap on July 1, 2020. See the caption “—Interest Rate Swap Agreements.” Interest on the unhedged portion of the 2018C Bonds, the 2017A Bonds, the 2017B Bonds and the 2015A Bonds is calculated at an assumed interest rate of 3.50% per annum. Interest differs from the projected debt service set forth in Table 20 as a result of differing interest rate assumptions for variable rate obligations. Reflects scheduled debt service on the 2015B IPA, the 2016A Bonds, the 2016B IPA, the 2017C Bonds and the 2017D IPA as set forth in Table 3 under the caption “—Subordinate Obligations.”

(4) Reflects debt service on State Contracts described in Table 2 under the caption “—Subordinate State Contracts.”

(5) Totals may not foot due to rounding.

Source: PFM Financial Advisors LLC.

Improvement District Bonds. The District has established 61 special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and six are combined water and sewer special improvement districts. Since 1952, the District has issued (on behalf of certain of these special improvement districts) 115 series of voter-authorized general obligation bonds, of which \$32,505,000 aggregate principal amount remained outstanding as of January 1, 2018. There remain \$547,650,000 aggregate principal amount of authorized but unissued general obligation bonds of the various special improvement districts within the District as of July 1, 2018. Such bonds are payable from *ad valorem* taxes levied by the District within the improvement districts for which such bonds were issued. Each series of such bonds constitutes an obligation of the respective special improvement district, not an obligation of the District, and the *ad valorem* taxes levied by the District on behalf of each such special improvement district are available only for the repayment of the bonds issued for such special improvement district. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources” for a discussion of certain limitations on the District’s ability to levy *ad valorem* taxes.

District Debt Policy

The District has adopted a Comprehensive Debt Management Policy (the “**Debt Policy**”) in accordance with California Government Code § 8855. The Debt Policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decisionmakers regarding the timing and purposes for which debt may be issued, the types and amounts of permissible debt and the methods of sale that may be used. Adherence to the Debt Policy helps to ensure that the District’s debt is issued and managed prudently in order to maintain a sound fiscal position and optimal credit ratings.

The Debt Policy updates and replaces the District’s prior Special District (Land Secured) Financing Policies, interest rate swap policy and disclosure procedures. The District reviews the Debt Policy several times per year (whenever there is a material change in risk exposures or conditions). The Policy was adopted by the Board of Directors and incorporated into Title 3, Article 8 of the District’s Administrative Code on January 18, 2017.

District Investment Policy

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

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

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

District Reserve Policy

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

The Reserve Policy was adopted by the Board on January 22, 2003 and is subject to change at any time at the discretion of the Board. The 2018A Indenture does not require the District to maintain a debt service reserve fund for the 2018A Bonds. As of June 30, 2018, the District had approximately \$357,103,000 in available cash reserves, representing approximately 636 days of Maintenance and Operation Costs in the form of cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$532 million and is invested in various securities with an average yield of approximately 1.57% as of February 28, 2018. See Note 2 in Appendix B for further information with respect to District reserves.

DISTRICT SERVICE AREA

The District's service area lies within the westerly third of Riverside County, encompassing approximately 355,200 acres (approximately 555 square miles). The first map below is a detailed map of the District's service area, while the second map below indicates the District's location within the southern California region. When the District was annexed to MWD by the District's voters in 1951, the District's service area consisted of 86 square miles. Growth has resulted from 88 annexations ranging in area from 1 to 72,000 acres. In addition, there have been 8 detachments of service areas. The District is divided into separate regional service areas for water service and for sewer service.

Riverside County's population was approximately 2.4 million as of Fiscal Year 2018. Of this total population, the District serves approximately 37%. The District has estimated that the population of the District's service area as of Fiscal Year 2018 was approximately 844,909.

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

<i>Fiscal Year</i>	<i>Population</i>	<i>Water Connections</i> ⁽¹⁾	<i>Wastewater Connections</i> ⁽²⁾
1990	190,548	63,516	91,176
2000	450,000	83,283	139,248
2005	596,000	112,845	190,321
2010	699,000	133,810	226,846
2011	705,000	135,233	228,701
2012	768,000	136,478	230,356
2013	776,986	138,141	232,431
2014	785,000	140,028	235,194
2015	794,790	141,752	237,911
2016	803,973	143,517	241,210
2017	816,411	145,939 ⁽³⁾	245,013
2018	844,909	148,994	248,759

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

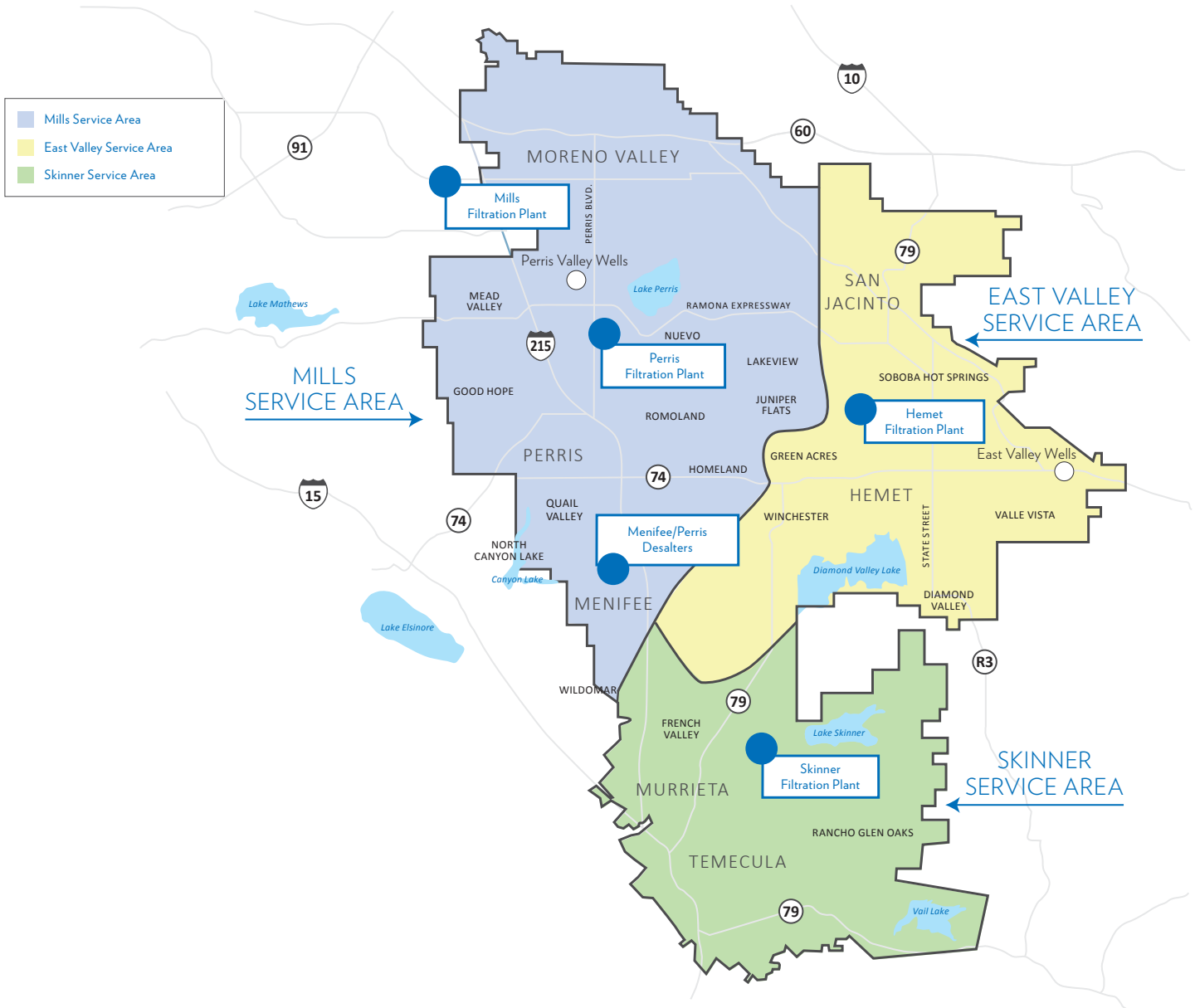
⁽²⁾ By equivalent dwelling unit. Reflects an average of active connections over the course of the listed Fiscal Years. Does not include recycled water connections. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—District Recycled Water Supply” for Fiscal Year 2017 recycled water connections.

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

Source: Eastern Municipal Water District.

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

SERVICE AREA MAP AND INCORPORATED CITIES





WATER RESOURCES, FACILITIES AND USAGE

General

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

Approximately 51% of the District's total water supply (including domestic and non-domestic) comes from local sources, including approximately 11% from potable groundwater, approximately 5% from groundwater that must undergo desalination treatment to be used as potable water and approximately 35% from recycled water. Groundwater sources are heavily dependent upon rainfall and other sources of recharge. The remaining 49% of the District's water supply (including approximately 75% of its potable water supply) comes through purchases from MWD, which in turn obtains its water supply from two primary sources: (i) the Colorado River via the Colorado River Aqueduct; and (ii) the State Water Project via the Edmund G. Brown California Aqueduct. In Fiscal Year 2017, the latest period for which such information is available, MWD supplied the District with approximately 65,623 acre feet of water. (Quantities of water are expressed in terms of acre feet. An acre foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to 325,900 gallons.)

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

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

The Metropolitan Water District of Southern California

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

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

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

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

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

The following table sets forth MWD’s rates for treated and untreated water from January 1, 2014 to January 1, 2018.

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

<i>Rates Effective Beginning</i>	<i>Full Service Domestic</i>	
	<i>Treated</i>	<i>Untreated</i>
January 1, 2014 Tier 1	\$ 890	\$ 593
January 1, 2014 Tier 2	1,032	735
January 1, 2015 Tier 1	923	582
January 1, 2015 Tier 2	1,055	714
January 1, 2016 Tier 1	942	594
January 1, 2016 Tier 2	1,076	728
January 1, 2017 Tier 1	979	666
January 1, 2017 Tier 2	1,073	760
January 1, 2018 Tier 1	1,015	695
January 1, 2018 Tier 2	1,101	781

Source: Eastern Municipal Water District.

MWD levies *ad valorem* taxes upon all of the property that is taxable for MWD purposes in the MWD service area, including the District’s service area. Between July 1, 1990 and June 30, 2013, in accordance with the MWD Act, MWD has limited its tax levy to the amount that is needed to pay: (i) the general obligation bond debt service of MWD; and (ii) that portion of MWD’s payment obligation under its water supply contract with the State of California attributable to debt service on certain State of California general obligation water bonds. The MWD tax levy amount has remained at the Fiscal Year 2013 level since Fiscal Year 2013. Taxes will cease to be levied when the general obligation bonds of MWD and the State of California general obligation water bonds are fully paid, although the MWD Act permits the MWD Board to continue to levy taxes upon a declaration of fiscal necessity.

District Water Facilities

The District's distribution system for potable water includes 86 water booster or pumping plants, 203 million gallons of surface storage capacity and approximately 2,380 miles of pipeline ranging from 4 to 66 inches in diameter.

Wells. Locally, the District currently maintains 14 active domestic production wells. The wells, which supplied approximately 16% of the District's domestic water in Fiscal Year 2017, the latest period for which such information is available, are listed by location, current status and Fiscal Year 2017 production in the following table. The District also pumps groundwater from wells in the Perris South and Lakeview sub-basins. Information relating to such wells is not set forth below because groundwater produced from such wells is brackish and must be desalinated prior to use. See the caption "—Groundwater Supplies—General."

TABLE 6
EASTERN MUNICIPAL WATER DISTRICT
Active Domestic Production Wells

<i>Location</i>	<i>Status</i>	<i>Fiscal Year 2017 Production (in acre feet)</i>	<i>Current Pumping Capacity⁽¹⁾</i>	
			<i>gallons/minute</i>	<i>acre feet/day</i>
<u>San Jacinto Basin – Cienega Area of Canyon Sub-Basin</u>				
No. 17 Cienega Well	Active	8,453	1,200	5.3
No. 26 Cienega Well	Active	597	1,215	5.4
No. 34 Cienega Well	Active	688	1,300	5.7
<u>San Jacinto Basin – Intake Area of Upper Pressure Sub-Basin⁽²⁾</u>				
No. 25 Fruitvale Well	Active	2,345	1,400	6.2
No. 33 Mountain Avenue Well	Active	491	820	3.6
No. 36 New Washington St.	Active	848	750	3.3
<u>San Jacinto Basin – Upper Pressure Sub- Basin</u>				
No. 29 Quandt Well	Active	1,550	1,500	6.6
No. 90 Evans/Old Mtn Well	Active	2,285	1,000	4.4
No. 91 Ramona/Espl Well	Active	895	1,400	6.2
No. 92 Ramona/Hemet Well	Active	1,597	1,700	7.5
<u>San Jacinto Basin – Hemet South Sub- Basin</u>				
No. 35 Palm & Menlo Well ⁽³⁾	Active	236	0	0.0
<u>San Jacinto Basin – Perris North Sub- Basin</u>				
No. 55 Perris II Well	Active	1,100	700	3.1
No. 56 Perry Well	Active	1,619	940	4.2
No. 57 Follico Well	Active	930	780	3.4
No. 59 Indian Well ⁽⁴⁾	Inactive	<u>0</u>	<u>0</u>	<u>0.0</u>
Total Production ⁽⁵⁾		15,634	14,705	64.9

⁽¹⁾ Tested capacity can vary with changes in water table.

⁽²⁾ Excludes Well Nos. 14, 27 and 80 because such wells were removed from production in April 2015, April 2016 and August 2016, respectively.

⁽³⁾ Well No. 35 is currently offline in anticipation of scheduled rehabilitation in 2018.

⁽⁴⁾ Through monitoring required by the federal Environmental Protection Agency's ("EPA") Unregulated Contaminant Monitoring rule, the District detected perfluorooctanoic acid and perfluorooctanesulfaonic acid (collectively, "PFAS") at levels that exceed new EPA health advisory levels in Well No. 59. See the caption "—Groundwater Supplies—General." The District voluntarily shut down Well No. 59 in May 2016 and has entered into two agreements with the United States Air Force (the designated responsible party) to mitigate the physical and economic impacts of these contaminants. Under one of these agreements, the Air Force reimburses the District for the purchase of additional imported water to replace the water that Well No. 59 would have produced. Under the second of these agreements, the Air Force reimburses the District for expenses related to constructing a wellhead treatment facility to remove PFAS to levels that are within the limits of the EPA's health advisory. The District expects to execute a third agreement with the Air Force under which the Air Force will reimburse the District for the operating costs associated with the wellhead treatment facility for a designated number of years once such facility is constructed.

⁽⁵⁾ Reflects actual Fiscal Year 2017 groundwater extractions. Excludes adjustments for in-lieu water purchased from MWD instead of being extracted from groundwater wells. Also excludes adjustments for groundwater extracted from District wells but delivered to other agencies.

Source: Eastern Municipal Water District.

The District's wells are considered to be deep-well production wells ranging in depth from 100 feet to 1,696 feet. Pumping levels for production range from 100 feet to 516 feet. The active production wells have a combined production capability of 14,705 gallons per minute, which equates to approximately 64.9 acre feet per day. The District has conducted studies to determine the safe yield of the groundwater sub-basins serving these wells. The development and production of future wells will depend on the safe yield of the groundwater

sub-basins. See the caption “—Groundwater Supplies—Soboba Settlement Agreement” for a discussion of certain groundwater recharge activities of the District.

Pipelines. The District’s water distribution system consists of approximately 2,380 miles of pipeline ranging in diameter from 4 inches to 66 inches.

Pressure Zones. Because elevations within the District vary from approximately 1,120 to approximately 3,160 feet, the District’s water distribution system includes 71 pressure zones which provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 90 pounds per square inch.

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

Storage Facilities. The District’s water system includes 79 active water storage facilities located throughout the District. These facilities provide approximately 203 million gallons of storage. The active reservoirs are ground level circular steel tanks; in addition, there are five small hydro-pneumatic booster tanks and three small blending tanks, ranging in size from 0.08 million gallons to 8.4 million gallons. The ground level reservoirs are situated at elevations high enough to provide water by gravity flow. The reservoirs are used to store water for fluctuating hourly demands (regulating storage), fire flow demands and emergency purposes. Given these considerations, it is the District’s intent to manage water storage efficiently by use of a telemetry system. The District’s storage facilities maintain an approximately 2.3 day supply of water.

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

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

Menifee/Perris Desalters. The District operates two brackish groundwater desalination plants located adjacent to each other. These plants use reverse osmosis to treat a combined plant capacity of 7 mgd. Plant production is blended with excess well production to provide a total potable supply of 9 mgd to the water system. The desalters are fed by 12 brackish (i.e., non-domestic) water wells pumping from the South Perris groundwater sub-basin. As described under the caption “—Groundwater Supplies,” the District is currently constructing an additional well to expand its desalination system.

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

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

Connections to MWD Facilities

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

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

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

MWD Supplies

As discussed above, approximately 49% of District’s water supply (including approximately 75% of its potable water supply) is imported from MWD. In Fiscal Year 2017, the latest period for which such information is available, MWD supplied the District with approximately 65,623 acre feet of water. MWD member agencies, which use MWD water to supplement their own local water supplies, can be expected to increase their purchases of MWD water if their local water supplies are reduced. MWD reports that it had approximately 3.08 million acre feet of water in storage as of January 1, 2018, compared to approximately 1.96 million acre feet, 1.55 million acre feet, 1.84 million acre feet, 2.95 million acre feet, 3.36 million acre feet and 3.00 million acre feet of water in storage as of January 1, 2017, January 1, 2016, January 1, 2015, January 1, 2014, January 1, 2013 and January 1, 2012, respectively.

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

OR THE OWNERS OF THE 2018A BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2018A BONDS.

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH MWD INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE 2018A BONDS UNDER RULE 15c2-12.

Recent Drought

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the “**Declaration**”) with immediate effect. The Declaration encouraged local urban water suppliers, including the District, to implement their local water shortage contingency plans (each, a “**WSCP**”); the District’s plan is discussed under the caption “—District Response to Drought.” The Declaration also required DWR and the SWRCB to craft and enforce numerous emergency regulations that were designed to reduce water usage and increase water supplies.

For instance, a May 2015 SWRCB regulation required the District to effect a 28% reduction from its 2013 potable water usage. On May 18, 2016, the SWRCB adopted a revised regulation that gave water agencies the ability to establish their own conservation standards based on a “stress test” of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they had sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands became the water agency’s updated mandatory conservation target.

As a result of significant investments in water supply reliability as described herein, the District demonstrated that it had more than sufficient supplies to meet its projected demands, even if California endured three more years of drought. Consequently, the District’s mandatory conservation target was eliminated, retroactive to June 1, 2016.

On April 7, 2017, after significant improvement in water supply conditions across California, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most California counties (including Riverside County). Notwithstanding the rescission of mandatory conservation measures, the SWRCB is currently developing: (i) permanent prohibitions on wasteful water use; and (ii) urban water use efficiency standards.

Because the District’s mandatory conservation target was eliminated in 2016, and because the District is currently implementing provisions of its WSCP that prohibit wasteful water use, the District does not believe that the April 7, 2017 Executive Order or the final SWRCB conservation regulations will have a significant effect on the District’s ability to generate sufficient Net Revenues to pay the 2018A Bonds when due. The District is unable to predict the substance, timing of adoption or effect on the District of any legislation with respect to water conservation.

District Response to Drought. Under the District’s WSCP, the District responds to a drought in stages in concert with regional water planning groups and neighboring water service providers. Implementation of the WSCP begins with the General Manager’s declaration of a potable water shortage emergency applicable to all customers, followed by public notice of such declaration. The first WSCP stage (Supply Watch) calls for voluntary 10% reductions in water use. The second WSCP stage (Supply Alert) calls for voluntary reductions in water use of up to 25% and reducing yard irrigation by one day per week, repairing leaks or water line breaks promptly, ending refills of artificial lakes and not using potable water to wash vehicles. The third WSCP stage includes Stage 3A (Mandatory Waste Reduction), which eliminates water use variances to fill swimming pools,

establishes new landscaping requirements and requires water leaks to be fixed within 48 hours, Stage 3B, which decreases Tier 3 water budgets by up to 50% and Stage 3C, which decreases Tier 3 water budgets up to 100%. The fourth WSCP Stage (Mandatory Outdoor Reduction) limits yard irrigation to one day per week (two days per week in summer months) and decreases Tier 2 water budgets by up to 10% (Stage 4A), up to 50% (Stage 4B) and then up to 100% (Stage 4C). The fifth WSCP stage (Mandatory Indoor Reduction) decreases Tier 1 water budgets by 10%, 30% and then 50%. In addition, for all stages, penalties are levied for violations of the Water Conservation provisions of the District's Administrative Code. The District's tiered rate structure is discussed under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges."

During Fiscal Years 2016 and 2017, the District implemented various stages of the WSCP, ranging from Stage 3C to 4C. At Stages 3C and above, water use in excess of the allotted budget amounts are charged at the highest cost per hundred cubic feet of water.

The District is currently implementing the Stage 2 of its WSCP. As further described above, under Stage 2 (Supply Alert), the District requests a voluntary 20% reduction in potable water use compared to 2013 usage.

The District estimates that the implementation of Stage 2 of the WSCP will not have a significant impact on most customers, but will continue to send a strong message to eliminate water waste. While implementation of the WSCP in future years may result in lower water sales revenues, it is also likely to result in lower operating costs, in particular water purchase costs and energy costs for water deliveries. Based on a rate study that was prepared in 2017, the District has recently revised its rate structure in order to more closely align the allocation of water costs with residential and non-residential water rates. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges."

Although the District believes that its groundwater and imported water supplies are stable or improving given increased attention to groundwater management (as discussed under the caption "—Groundwater Supplies") and storage of surface water, State regulations to date have not been revised to reflect such facts. The District does not believe that the implementation of Stage 2 of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the 2018A Bonds when due. See the Official Statement under the caption "SECURITY FOR THE 2018A BONDS—Pledge of Net Revenues."

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

Groundwater Supplies

General. In Fiscal Year 2017, the latest date for which such information is available, the District produced approximately 13% of its total domestic water supply from 13 wells located on the east side of the San Jacinto groundwater basin (the "**San Jacinto Basin**") and approximately 4% of its total domestic water supply from 3 wells located on the west side of the San Jacinto Basin (including wells that are not currently active). To maintain its production capacity, the District is also in the process of constructing two additional wells (Wells 37 and 38) to replace two wells (Wells 14 and 28) that were recently taken out of production. The east side of the San Jacinto Basin also provides groundwater for the cities of Hemet and San Jacinto, LHMWD and private well owners; use by private well owners is primarily for agricultural irrigation. The District also produces approximately 8% of its total domestic supply from wells in the Perris South and Lakeview sub-basins that contain brackish water which must be desalinated prior to use.

In May 2016, the EPA amended its Provisional Health Advisory for PFAS, as described in footnote (4) to Table 6 under the caption “—District Water Facilities—Wells.” Through the monitoring that is required under the EPA’s Unregulated Contaminant Monitoring Rule, the District detected PFAS in Well 59 at levels that are above the new EPA health advisory levels. Well 59 is one of the three wells located on the west side of the San Jacinto Basin. Local regulators have advised the District to treat the new advisory levels as if they were regulatory limits. The District therefore shut down Well 59, which had levels of PFAS that exceeded the new advisory limits. See the caption “—District Water Facilities—Wells.” The District has been able to purchase additional imported water to replace the 1.5 mgd that had previously been drawn from Well 59. PFAS is used in the manufacturing of aqueous film forming foam, a substance that is used to fight fires. The source of PFAS was determined to be a fire fighting training site located on March Air Reserve Base in Moreno Valley. The United States Air Force, the designated responsible party, entered into agreements with the District to fund water supply replacement and well treatment, as discussed in footnote (4) to Table 6 under the caption “—District Water Facilities—Wells.” Currently, the District is designing well treatment facilities at Well 59. Such facilities are anticipated to be constructed by 2019.

On February 15, 2017 the District entered into an agreement entitled “Environmental Services Cooperative Agreement for Response Activities for Off-Base Wells with Perfluorinated Compounds” between the United States Air Force (the designated responsible party with respect to the PFAS) and the District. Through this agreement, the Air Force Civil Engineer Center will reimburse the District for the purchase of additional imported water to replace the water that Well 59 would have produced since May 20, 2016, when the well was shut down.

On July 24, 2017, the District entered into a second agreement with the Air Force under which the Air Force will reimburse the District for expenses related to constructing a wellhead treatment facility to remove PFAS to levels that are within the limits of the EPA’s health advisory. The District expects to execute a third agreement with the Air Force under which the Air Force will reimburse the District for the operating costs associated with the wellhead treatment facility for a designated number of years once such facility is constructed.

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

When the Judgment was entered, the adjudicated portion of the San Jacinto Basin was estimated to be in a state of overdraft in the approximate amount of 10,000 acre feet per year; since that time, public agencies have reduced their pumping in accordance with the Judgment. Under the Judgment, the initial safe yield of the adjudicated portion of the San Jacinto Basin was estimated to be approximately 45,000 acre feet per year. A groundwater model of the San Jacinto Basin that was prepared in conjunction with the Watermaster in 2016 confirmed that the long-term safe yield of the basin is approximately 45,000 acre feet per year.

To achieve a reduction of groundwater production to this level, an Adjusted Base Production Right (the “**ABPR**”) was established for each of the participating public agencies that are subject to the Judgment. The ABPR quantity was reduced by 10% in the first year following the Judgment, with subsequent reductions of 7% per year required for the following five years in order to reduce groundwater production to a sustainable level. For the period from May 2018 through April 2019, the District’s ABPR is 7,303 acre feet. Further reductions in the District’s ABPR are not anticipated at this time.

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

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

The Watermaster is entitled to levy upon the agencies that are subject to the Judgment: (i) an administrative assessment (\$30 per acre foot for calendar year 2018) on groundwater pumped up to the parties' respective ABPR amounts, which will be used to cover administrative costs of the Watermaster; and (ii) a replenishment assessment for groundwater pumped by the parties in excess of their respective base production amounts, which will be used to purchase water for groundwater recharge. The Watermaster is currently evaluating the costs of purchasing water for groundwater recharge in consultation with the District and other agencies subject to the Judgment. Accordingly, the amount of such replenishment assessment has not yet been determined.

The District's groundwater programs include the following elements:

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

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

The SGMA (as described under the subcaption "—Sustainable Groundwater Management Act" below) requires the preparation and implementation of a groundwater sustainability plan for non-adjudicated high or medium priority basins. The District is currently developing such a plan for the non-adjudicated portion of the San Jacinto Basin. Until that plan is approved by DWR, the existing AB 3030 Groundwater Management Plan will remain in effect for the non-adjudicated portion of the San Jacinto Basin. In addition, annual reporting will also continue until a groundwater sustainability plan is developed and implemented.

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

Brackish Groundwater Desalination. The District has constructed two desalters with a combined annual capacity of 9,600 acre feet. See the caption "—District Water Facilities—Meniffee/Perris Desalters." A

third desalter, called the Perris II Desalter, is in the final design phase and will expand the desalination program capacity to 15,000 acre feet per year. The Perris II Desalter's total cost is expected to be approximately \$44 million. The District received a \$1,000,000 grant to provide partial funding for a new well (Well 93), which will feed the desalination system. Well 93 has been constructed. The District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants as well as reduce brine disposal costs. The District also received a \$1,000,000 grant from the State of California for partial funding of one additional desalter well (Well 94). The United States Army Corps of Engineers budgeted \$2,500,000, \$3,600,000, \$750,000 and \$4,007,000 in federal fiscal years 2014-15, 2015-16, 2016-17 and 2017-18, respectively, for a total of \$10,857,000 to provide partial funding for three of the four new desalter wells (Wells 94, 95 and 96).

Soboba Settlement Agreement. In 2008, the President of the United States signed the Soboba Settlement Act (the "**Settlement Act**") to settle a lawsuit filed by the Soboba Band of Luiseño Indians (the "**Soboba Band**") against MWD, LHMWD and the District. The lawsuit alleged that the construction of the San Jacinto Tunnel and Lake Hemet by MWD and LHMWD, respectively, had adversely affected the Soboba Band's water rights. Recharge of imported raw water was identified in the Judgment as the physical solution (as described above under the caption "—Watermaster"). The Settlement Act approved the physical solution and requires the District to contract with MWD for an annual supply of at least 7,500 acre feet of imported raw water to be recharged into the San Jacinto Upper Pressure and/or the Canyon Sub-basins of the San Jacinto Basin and to construct facilities to enable such recharge. The Phase I recharge facilities consist of the Integrated Recharge and Recovery Program ("**IRRP**") ponds that are located within the San Jacinto Upper Pressure Sub-basin and the Grant Avenue Ponds that are located within the Canyon Sub-basin. The District, together with LHMWD, the cities of Hemet and San Jacinto and local groundwater producers, carries out the activities that comprise the physical solution at these recharge facilities. The first year of recharge under the Judgment occurred in 2012. As part of the physical solution, groundwater pumping by the District can be limited in certain years when necessary to safeguard the sustainability of the groundwater basin. The District's total share of facilities construction costs and cash settlement payments under the Settlement Act was approximately \$8.9 million, or approximately 33.7% of the \$26.6 million total paid by all parties. This figure does not include the District's 33.7% share of the annual costs associated with the recharge of at least 7,500 acre feet of water for future years. Such costs are not included in projected Operating Expenses set forth in Table 20 under the caption "PROJECTED OPERATING RESULTS" because water purchased for recharge pursuant to the Settlement Act is not sold to District customers and is treated as an asset (water inventory) that is available to the District so long as groundwater levels available to the Soboba Band meet the requirements of the Settlement Act. See Note 10 in Appendix B for a more detailed description of the District's accounting treatment of the costs of water purchased for recharge pursuant to the Settlement Act.

Recycled Water. Approximately 37% of the District's water supply consists of recycled water. In Fiscal Year 2017, the latest period for which such information is available, the District produced approximately 46,346 acre feet of recycled water. Recycled water is utilized year round. However, in winter months, the excess recycled water can be used to augment natural recharge and increase groundwater basin yield. The District has entered into a cooperative agreement with the U.S. Army Corps of Engineers with respect to the San Jacinto River Ecosystem Restoration Feasibility Study to evaluate and determine the feasibility of restoring the river ecosystem and the use of different water supply sources, including recycled water for ecosystem restoration in conjunction with groundwater recharge. In 2008 and 2009, the District completed an initial feasibility study and strategic plan identifying Indirect Potable Reuse (through advanced treatment and groundwater recharge) as a key future strategy for achieving 100% year-round utilization of available recycled water supplies. The District is also participating in a Demineralization and Non-Potable Water Conversion Feasibility Study with Rancho California Water District to investigate the feasibility of demineralization of recycled water and conversion of avocado groves and other crops to this non-potable water source.

Sustainable Groundwater Management Act. On September 16, 2014, the State Governor signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act, or "**SGMA**") into law. The SGMA constitutes a legislative effort to regulate groundwater on

a Statewide basis. Under the SGMA, DWR designated groundwater basins in the State as high, medium, low or very low priority for purposes of groundwater management. Local groundwater producers were required to establish or designate an entity (referred to as a groundwater sustainability agency, or “GSA”), subject to DWR’s approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a groundwater sustainability plan for DWR’s approval by January 31, 2020. Alternatively, groundwater producers were required to submit a groundwater management plan under Part 2.75 of the California Water Code or an analysis for DWR’s review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years by January 31, 2017, with updates every five years thereafter.

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

The San Jacinto Basin has been designated as a high priority groundwater basin. Certain portions of the San Jacinto Basin (primarily on the east side thereof) have been adjudicated pursuant to the Judgment (as discussed the caption “—The Watermaster”), and as such are specifically exempt from the SGMA based on a legal interpretation provided by the SWRCB. The District is not pursuing the formation of a GSA for the area managed by the Watermaster.

After consultation with other agencies, the District submitted a notification to DWR seeking to become the GSA for the unadjudicated west side of the San Jacinto Basin. Following a 90-day public review period (which expired on April 24, 2017), DWR recognized the District as the GSA for the unadjudicated west side of the San Jacinto basin. The District does not currently expect its groundwater extraction rights or costs in the west side of the San Jacinto Basin to change significantly as a result of the enactment of the SGMA because the District is already sustainably managing such areas as part of the AB 3030 Groundwater Management Plan that is discussed under the caption “—Groundwater Management Activities,” as required by the SGMA. The AB 3030 Groundwater Management Plan will remain in effect until a groundwater sustainability plan is approved by DWR for the unadjudicated west side of the San Jacinto Basin. The District believes that the groundwater sustainability plan that it is developing in accordance with the SGMA will not have a significant fiscal impact, nor is it expected to have a material impact on the District’s groundwater supply from such areas. The District intends to request DWR approval of a groundwater sustainability plan for such areas by January 31, 2020 in accordance with the SGMA, although there can be no assurance as to the timing or substantive provisions of the final approved plan. All of the District’s groundwater wells are currently metered, as required by the SGMA.

The District does not currently expect the enactment of the SGMA or the appointment of the District as a GSA with respect to the west side of the San Jacinto Basin to have a material adverse effect on the District’s ability to generate sufficient Net Revenues to pay the 2018A Bonds.

Other Programs. The District is in the final design stages of the development of a water bank with a storage capacity of up to 128,000 acre feet. The project, known as the San Jacinto Valley Enhanced Recharge and Recovery Program (the “**SJV ERRP**”), calls for importing untreated water from MWD and water purchased from other agencies. Such water would be recharged into the east side of the San Jacinto Basin from properties that are currently owned by the District. See the subcaption “—The Watermaster” above.

As currently proposed, some of the recharged water will be for conjunctive use in the same or the following year and some will be banked for future use during drought or water supply emergencies. The District believes that depositing water into the San Jacinto Basin for future use will reduce treatment costs for such water. Under the SJV ERRP as currently envisioned, up to three wells would be constructed by 2020, with

up to eight wells constructed later, in order to extract banked water. The SJV ERRP currently contemplates that the initial three wells would each have an annual average capacity of approximately 1,350 gallons per minute, or approximately 2,350 acre feet per year. Recharge facilities with a capacity of up to 67,000 acre feet per year and monitoring and water conveyance facilities would also be constructed. Currently, the cost for the first phase of the SJV ERRP is estimated to be approximately \$22,280,000.

The District has been awarded Proposition 84 grant funding for the first phase of the SJV ERRP (referred to as the Santa Ana River Conservation and Conjunctive Use Program, or “**SARCCUP**”). The District has not yet determined other financing sources for the SJV ERRP. An environmental impact report is currently being prepared for the SJV ERRP. See the caption “THE CAPITAL IMPROVEMENT PLAN—Environmental Considerations.” An environmental impact report for SARCCUP is expected to be completed in late 2018. SARCCUP is expected to be constructed within the next five years, in accordance with the grant funding schedule. The District will contribute \$9 million toward the program, with the remaining \$13.28 million coming from grant funding.

Quality of District Water

The District receives treated water from MWD which, to the District’s knowledge, meets all current requirements of the federal Safe Drinking Water Act and regulations of the SWRCB’s Division of Drinking Water. Water quality has varied based on the available water, which is dependent upon climate. The recent drought that is discussed under the caption “—Recent Drought” had caused the District to receive a higher percentage of Colorado River water from its MWD supplies that it had received in previous years. Such water has higher salinity levels than other MWD sources such as the State Water Project. In 2017, the increased level of snowpack and precipitation resulted in the availability of a larger amount of State Water Project water, thereby reducing MWD and District dependence on supplies from the Colorado River. However, in 2018, the Sierra Nevada snowpack and local precipitation (which represent the sources of State Water Project water) have been below average, which may lead to a smaller amount of State Water Project water being made available.

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

See the caption “—Groundwater Supplies—General” for a discussion of an amended EPA advisory notice which caused the District to shut down one of its groundwater wells.

Water Production

The term “water production” describes the quantity of water that the District obtains from all sources to meet its consumers’ needs. These sources include the District’s wells, desalination plants, District purchases from MWD and recycled water. It also includes losses incurred between the source and the ultimate use by the consumer. These losses may result from pipeline breaks, leakage, evaporation from operating reservoirs and metering discrepancies. Water production of the District for Fiscal Years 2013 through 2017, the latest period for which such information is available, is shown in the following table:

TABLE 7
EASTERN MUNICIPAL WATER DISTRICT
Water Production in Acre Feet

<i>Fiscal Year</i>	<i>Domestic Retail</i>	<i>Wholesale</i>	<i>Agriculture</i>	<i>Recycled Water</i>	<i>Total Production</i>
2013	88,942	3,875	3,241	46,502	142,560
2014	88,422	7,218 ⁽¹⁾	5,845	47,707	149,192
2015 ⁽²⁾	81,407	3,306	4,647	46,366	135,725
2016 ⁽²⁾	68,302	2,807	6,861	44,901	122,871
2017	76,700	4,358	6,101	46,346	133,505

⁽¹⁾ Increase from Fiscal Year 2013 reflects a large purchase (3,270 acre feet) of wholesale water in Fiscal Year 2014, which was sold for agricultural use to LHMWD.

⁽²⁾ Decreases since Fiscal Year 2014 reflect effect of Statewide drought and the District’s response thereto. See the caption “—Recent Drought.” See Table 18 under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues” for historic water sales revenue information for such Fiscal Years.

Source: Eastern Municipal Water District.

The table below sets forth the estimated annual amount of water per active account consumed for domestic purposes in the District’s service area Fiscal Years 2013 through 2017, the latest period for which such information is available. The water needed to satisfy these domestic consumption levels was furnished by the District.

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

<i>Fiscal Year</i>	<i>Use (acre feet)⁽¹⁾⁽²⁾</i>	<i>Billed Accounts</i>	<i>Average Acre Feet Per Account</i>
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44
2017	68,613	148,473	0.46

⁽¹⁾ Differences from the “Domestic Retail” water production figures set forth in Table 7 reflect water loss and use of water for internal District purposes.

⁽²⁾ Excludes wholesale sales of domestic water.

Source: Eastern Municipal Water District.

Water deliveries by the District for Fiscal Years 2013 through 2017, the latest period for which such information is available, are shown in the table below. The District’s water deliveries are equal to the District’s water production less losses experienced in delivering such water to the consumer.

TABLE 9
EASTERN MUNICIPAL WATER DISTRICT
Water Deliveries in Acre Feet

<i>Fiscal Year</i>	<i>Domestic Retail</i>	<i>Wholesale</i>	<i>Agriculture</i>	<i>Recycled Water</i> ⁽¹⁾	<i>Total Sales</i>
2013	82,591	3,578	2,641	34,889	123,699
2014	84,650	4,294 ⁽²⁾	5,584	37,467	131,995
2015 ⁽³⁾	76,832	3,082	4,446	35,617	119,977
2016 ⁽³⁾	63,673	2,641	6,403	32,037	104,754
2017	68,813	3,667	5,987	29,872	108,339

⁽¹⁾ Differences from the “Recycled Water” production figures set forth in Table 7 reflect water loss as well as discharges of recycled water into local waterways during periods of heavy precipitation in accordance with the District’s discharge permits and recharge into groundwater basins. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—District Recycled Water Supply” and “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters.” The District expects to undertake capital improvements that will enhance its ability to store recycled water during periods of heavy precipitation and sell it during periods of high demand, and has entered into the Alessandro Ponds Contract to finance one such project. See the captions “THE DISTRICT—Debt Structure of the District—Subordinate State Contracts” and “THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvement Plan.”

⁽²⁾ Excludes water delivered to LHMWD for agricultural use, as described in footnote (1) to Table 7.

⁽³⁾ Decreases since Fiscal Year 2014 reflect effect of Statewide drought and the District’s response thereto. See the caption “—Recent Drought.” See Table 18 under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues” for historic water sales revenue information for such Fiscal Years.

Source: Eastern Municipal Water District.

Water Sales and Deliveries

The District’s ten largest customers (including both retail and wholesale customers) accounted for approximately 9.5% of the District’s total water sales revenues in Fiscal Year 2017. These figures do not include recycled water users or agricultural customers.

For Fiscal Year 2017, the District had 148,473 domestic active billing accounts and 127 active agricultural/irrigation and other accounts. However, the number of billing accounts does not represent the actual number of District customers because one billing account can encompass multiple users or a multiple number of sites served. For example, one apartment complex can equal one billing account; in addition, if one developer owns two or more apartment complexes, the billing for all such complexes may be aggregated into a single billing account charged to that developer. A similar result may be obtained with respect to irrigation billing accounts. See the caption “DISTRICT SERVICE AREA” for historic water connections of the District.

The District also provides wholesale water service to the cities of Hemet, Perris and San Jacinto, Western Municipal Water District, LHMWD, Nuevo Mutual Water Company and DWR. In Fiscal Years 2015, 2016 and 2017, the latest period for which such information is available, wholesale water sales totaled approximately 3,082 acre feet, 2,641 acre feet and 3,667 acre feet, respectively.

The following table sets forth the District’s ten largest domestic water customers by sales in acre feet as of June 30, 2017, the latest date for which such information is available.

TABLE 10
EASTERN MUNICIPAL WATER DISTRICT
Largest Domestic Water Customers as of June 30, 2017⁽¹⁾

<i>Customer Name</i>	<i>Sales in Acre Feet</i>	<i>Annual Revenues</i>
1. Western Municipal Water District ⁽²⁾⁽³⁾	1,619	\$ 2,000,233
2. City of Perris ⁽²⁾	1,603	1,981,658
3. Moreno Valley Unified School District	957	1,254,360
4. City of Moreno Valley	749	1,143,781
5. Valley-Wide Recreation and Park District	695	1,073,558
6. Val Verde Unified School District	567	801,867
7. County of Riverside	557	774,543
8. Stonegate at Towngate	515	670,723
9. City of Murrieta	422	659,265
10. Country Meadows II Association	<u>372</u>	<u>603,544</u>
Total	8,056	\$ 10,963,532
Total Fiscal Year 2017 domestic water sales	72,480	\$ 115,796,435
Top 10 customers as a percentage of total	11.11%	9.47%

⁽¹⁾ Data includes potable water sales to all non-agricultural customers. Numbers are rounded.

⁽²⁾ Wholesale customer.

⁽³⁾ Sales relate to customers of Murrieta County Water District, which was purchased by Western Municipal Water District.

Source: Eastern Municipal Water District.

WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE

Wastewater Facilities

The District is currently divided into four sewer service areas—Hemet/San Jacinto, Moreno Valley, Temecula Valley and Perris Valley—for purposes of collection, transmission, treatment and disposal of wastewater. Each service area is served by a single regional water reclamation facility (“**RWRF**”), for which costs and methods of treatment vary. The facilities are capable of treating approximately 70 mgd of wastewater and serve approximately 816,411 people (a subset of the estimated total population within the District). The facilities are linked to a network of nearly 1,790 miles of pipeline and 46 active lift stations. See the caption “DISTRICT SERVICE AREA” for historic wastewater connections of the District.

The reliable capacity, flow and average percentage of daily flows of each RWRF for Fiscal Year 2017, the latest period for which such information is available, are provided below. See the caption “THE CAPITAL IMPROVEMENT PLAN” for a discussion of the District’s Capital Improvement Plan.

TABLE 11
EASTERN MUNICIPAL WATER DISTRICT
Regional Water Reclamation Facilities

<i>RWRF</i>	<i>Reliable Capacity (mgd)⁽¹⁾</i>	<i>Fiscal Year 2017 Daily Average Flow Treated (mgd)</i>	<i>Daily Average Flow as Percentage of Capacity</i>
Moreno Valley ⁽²⁾	15.0	10.3	69%
Perris Valley ⁽³⁾	22.0	12.7	58
San Jacinto Valley ⁽⁴⁾	14.0	6.7 ⁽⁶⁾	48
Temecula Valley ⁽⁵⁾	<u>18.0</u>	<u>13.5</u>	<u>75</u>
Total	69.0	43.2	63

⁽¹⁾ Reliable capacity is the capacity that is determined by the District to be appropriate under normal operating conditions, based on the RWRF's operating systems and filtration processes, to comply with State of California regulatory and operational constraints. See the caption "—Regulatory Matters."

⁽²⁾ Expansion to 16 mgd permitted capacity was completed in 2013. Reliable capacity is estimated at 15 mgd. See footnote (1).

⁽³⁾ Expansion to 25 mgd permitted capacity was completed in 2014. Reliable capacity is estimated at 22 mgd. See footnote (1). Perris Plant 1, which provides approximately 3 mgd of capacity, is currently out of service.

⁽⁴⁾ Expansion to 14 mgd permitted capacity was completed in November 2015. See the caption "THE DISTRICT—Debt Structure of the District—Subordinate State Contracts."

⁽⁵⁾ Expansion to 18 mgd permitted capacity was completed in 2014. See the caption "THE DISTRICT—Debt Structure of the District." The District is currently applying proceeds of the 2017D Bonds and the Temecula Valley Regional Wastewater Recovery Facility Expansion State Contract to finance the further expansion of the Temecula Valley RWRF to 23 mgd. Construction is underway and is expected to be completed in July 2019.

⁽⁶⁾ Amount excludes 2.8 mgd diverted to Perris Valley RWRF and included in Perris Valley RWRF flow amount.

Source: Eastern Municipal Water District.

Wastewater Facility Usage

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

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

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

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

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

The following table sets forth the District’s ten largest wastewater customers by revenues as of June 30, 2017, the latest date for which such information is available.

TABLE 12
EASTERN MUNICIPAL WATER DISTRICT
Largest Sewer Customers as of June 30, 2017

<i>Customer Name</i>	<i>Annual Revenues</i>
1. Pechanga Resort and Casino	\$ 799,111
2. New Highland Meadows	550,551
3. Murrieta Valley Unified School District	214,901
4. Moreno Valley Unified School District	177,662
5. Hemet Unified School District	163,162
6. Iris Landing Homeowners Association	162,700
7. Waterstone at Murrieta Apartments	160,471
8. Casabella Owner’s Association	155,038
9. Westwind Enterprises	154,551
10. Stonegate at Towngate	<u>135,576</u>
Total	\$ 2,683,722
Total Fiscal Year 2017 sewer revenue	\$ 92,536,116
Top 10 customers as a percentage of total	2.90%

Source: Eastern Municipal Water District.

District Recycled Water Supply

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

The District currently generates approximately 44 mgd of effluent at its four active RWRFs. In Fiscal Year 2017, approximately 94% of the total recycled water produced (approximately 43,500 acre feet) was beneficially used within the District’s service area. Unsold recycled water is typically transferred to storage ponds and utilized to meet peak demands or is used for incidental groundwater recharge; a small amount is also lost to evaporation. In accordance with its discharge permits, the District also discharges recycled water into local waterways during periods of heavy precipitation. Recycled water customers include 74 active agricultural sites, 5 golf courses, 300 landscape irrigation sites, 5 recreational clubs, 1 wildlife area, 1 power generation facility, 6 wholesale connections and 16 temporary construction meters. In Fiscal Year 2018, based on unaudited actual results, sales of recycled water in the District totaled \$9,028,827.

Recycled Water Facilities and Application of Recycled Water

In addition to the four RWRFs, the District’s recycled water facilities include approximately 207 miles of transmission and distribution pipelines, 24 pumping facilities and approximately 7,571 acre feet of storage and percolation ponds. All four of the District’s RWRFs provide tertiary recycled water. See footnote (5) to Table 11 under the caption “—Wastewater Facilities” for a discussion of the completed expansion and the ongoing further expansion of the tertiary treatment capacity of the Temecula Valley RWRf.

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

Regulatory Matters

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

On September 13, 2000, the San Diego RWQCB issued Order No. R9-2000-0165 (the "**San Diego RWQCB Permit**") authorizing the District to discharge recycled water within the Santa Margarita River basin. The San Diego RWQCB Permit allows recycled water produced at the Temecula Valley RWRf to be discharged or reused within the Santa Margarita River watershed. The San Diego RWQCB Permit does not have an expiration date. The District recently submitted an application for a revision of the San Diego RWQCB Permit to accommodate the expansion of the Temecula Valley RWRf's capacity to 23 mgd. See the caption "**—Wastewater Facilities.**" There can be no assurance as to whether or when such application will be approved by the San Diego RWQCB.

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

In addition, on September 18, 2015, the Santa Ana RWQCB and the State of California issued Order No. R8-2015-0006 and NPDES Permit No. CA8000188, respectively (collectively, the "**NPDES Permit**"), authorizing the District to discharge effluent from the Perris Valley, Moreno Valley, San Jacinto Valley and Temecula Valley RWRfs and from Rancho California Water District's Santa Rosa RWRf to Temescal Creek in Riverside County. Temescal Creek is a tributary of Reach 3 of the Santa Ana River. The NPDES Permit has a 5-year term and the District expects to begin the process of renewing the NPDES Permit in 2019.

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

The District is implementing a salinity and nutrient management plan (an "**SNMP**") for the San Jacinto River basin. The District is also implementing an SNMP for the Upper Santa Margarita River basin together with Rancho California Water District and Elsinore Valley Municipal Water District. In addition, the District has completed an SNMP for Upper Temescal Valley Watershed together with Elsinore Valley Municipal Water District to support the NPDES Permit described above. This SNMP was presented to the Santa Ana RWQCB and approved in 2017. Currently, the District and Elsinore Valley Municipal Water District are jointly monitoring surface water and groundwater as part of the Upper Temescal Valley SNMP.

On February 19, 1993, the EPA issued a final rule for the use and disposal of biosolids (Code of Federal Regulations Title 40, Part 503) ("the "**Biosolids Rule**"). The Biosolids Rule requires that producers of biosolids meet certain reporting, handling and disposal requirements. Compliance with the biosolids disposal

requirements of the Biosolids Rule is required under the San Diego RWQCB Permit and the Santa Ana RWQCB Permit.

Approximately 45,948 wet tons of biosolids were produced from the District's RWRFs in 2017 and reported to the EPA, the State of California and the State of Arizona. All RWRFs have belt press and centrifuge driers for sludge dewatering. The Temecula Valley and Moreno Valley RWRFs also have rotary drum sludge thickeners. Biosolids are the solid, stabilized organic materials generated from the wastewater treatment processes. The District's biosolids are currently hauled daily by a contractor to Arizona for landfill disposal or land application.

THE CAPITAL IMPROVEMENT PLAN

Background

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

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

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

See the caption "WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Other Programs" for a discussion of the SJV ERRP, which, if constructed as currently contemplated, would increase the District's groundwater supplies.

Financing of Capital Improvement Plan

The District expects to spend a total of approximately \$76 million in Fiscal Year 2019 on water, wastewater, recycled water and general capital improvement projects. The District anticipates that it will pay the costs of such projects from previously issued Subordinate Obligations and previously executed State Contracts as described in Table 14 below. The five-year CIP for the current and next four Fiscal Years is estimated to total approximately \$397 million, as summarized in the table below. All estimates include planning, design, construction, engineering, administration and right-of-way acquisition costs.

TABLE 13
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Capital Requirements (Dollars in Millions)⁽¹⁾

<i>Fiscal Year</i>	<i>Water</i>	<i>Wastewater</i>	<i>Recycled/Other</i>	<i>Annual Total</i>
2019	\$ 35	\$ 30	\$11	\$ 76
2020	39	26	16	81
2021	50	32	3	85
2022	63	19	3	85
2023	<u>57</u>	<u>11</u>	<u>2</u>	<u>70</u>
Total	\$244	\$118	\$35	\$397

⁽¹⁾ Totals may not add due to rounding.
Source: Eastern Municipal Water District.

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

TABLE 14
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Financing Sources (Dollars in Millions)⁽¹⁾

<i>Fiscal Year</i>	<i>District Pay-As-You-Go⁽²⁾</i>	<i>Subordinate Obligations and Approved and Additional State Contracts⁽³⁾</i>	<i>Annual Total</i>
2019	\$ -	\$ 76	\$ 76
2020	10	71	81
2021	85	-	85
2022	85	-	85
2023	<u>70</u>	<u>-</u>	<u>70</u>
Total	\$250	\$147	\$397

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Includes grants.

⁽³⁾ Includes application of a portion of the proceeds of previously issued District bonds and executed State Contracts in each of Fiscal Years 2019 and 2020, as well as application of the Alessandro Ponds Contract. See the caption “THE DISTRICT—Debt Structure of the District.”

Source: Eastern Municipal Water District.

Environmental Considerations

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

Under CEQA, a project which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, which begins with an Initial Study that determines the level of environmental review based on the expected effects of the project on the environment. The project may require the preparation of an Environmental Impact Report (“**EIR**”), which is the highest level of review. The EIR

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

HISTORICAL FINANCIAL OPERATIONS

Operating Revenues

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

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

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

Under the 2018A Indenture, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (defined as Net Water and Sewer Revenues less all payments due on Parity Obligations) equal to 115% of the Debt Service on all Subordinate Obligations for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

See the Official Statement under the caption "SECURITY FOR THE 2018A BONDS—Rate Covenant."

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

The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the District’s updated rate allocation model (as discussed under the caption “—Water Rates and Charges” below), as well as increases in sewer rates averaging approximately 0.4% as of July 1, 2018. The Board adopted such rate increases on November 15, 2017. In addition, the projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” assume increases in water commodity rates and daily service charges averaging approximately 3.8% per annum beginning January 1, 2019, and increases in sewer rates averaging approximately 5% per annum beginning January 1, 2019. All of such projected rate increases after January 1, 2019 are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption “—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”

Water Rates and Charges. The District implemented a water budget-based tiered rate structure in April 2009. This structure was intended to reward water use efficiency and discourage water waste. The tiered rate structure was also intended to promote: (i) fairness; (ii) conservation; and (iii) revenue stability. On March 15, 2017, the Board approved a Cost of Service Rate Methodology (the “**Rate Study**”) which evaluated the cost of providing water service, including Maintenance and Operation Costs, to more closely align the allocation of water costs with residential and non-residential water rates.

On June 7, 2017, the Board adopted the District’s biennial budget for Fiscal Years 2018 and 2019, which updated the District’s rate allocation model to reflect the findings of the Rate Study. The updated tiered rate structure, which is effective as of January 1, 2018, is based on water budgets that apply to all single-family, multi-family and landscape accounts utilizing the domestic water system.

Tiers within the water budget are calculated to encourage efficient indoor and outdoor use as follows:

- (i) The indoor water budget is based on the gallons of water needed per person per day.
- (ii) The outdoor budget is based on a square footage of landscape, actual daily evapotranspiration and the following conservation factors:

<i>Account Installation Date</i>	<i>Residential Conservation Factor</i>	<i>Non-Residential Conservation Factor</i>
Prior to 12/31/2010	0.8	0.7
1/1/2011 – 5/31/2015	0.7	0.7
On or after 6/1/2015	0.5	0.5

Source: Eastern Municipal Water District.

The conservation factor can be adjusted up to 1.0 for functional areas at the discretion of the District. The conservation factor can also be adjusted temporarily by the District to establish or maintain water efficient landscaping during a drought.

- (iii) Residential customers have a Tier 1 and Tier 2 rate applied to in-budget water use. Nonresidential customers have only a Tier 1 rate applied to in-budget water use.

- (iv) An Excessive rate (Tier 3 for residential customers and Tier 2 for non-residential customers) is applied to a percentage of water use beyond the indoor and outdoor budgets.

(v) A Wasteful Rate (Tier 4 residential customers and Tier 3 for non-residential customers) is applied to wasteful water use that exceeds the Excessive Use tier.

Under the District’s rate methodology, water budgets do not align with a specific rate; instead the amount of water billed at each tier is based on the availability of specific water supply sources, which include groundwater, treated groundwater and more expensive imported supplies. All residential customers are billed at the Tier 1 rate for the first 20% of their monthly water budget, as that is the proportional amount of local, lowest-cost supplies available. The remaining portion of the water budget will be billed at the Tier 2 rate for budgeted supplies. Tier 3 and 4 rates cover any usage in excess of the total budget.

Since 2009, average water consumption per household has dropped as a result of the District’s current and prior tiered rate structures. The current tiers were developed taking into account the various sources of supply and the incremental cost of using each source to supply the needed demand. The District’s least expensive source of supply is groundwater and its most expensive source of supply is the desalters that are described under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Menifee/Perris Desalters.”

In addition to the above-described water commodity charges based upon usage, the District imposes a daily service charge to cover a portion of the water system’s fixed operating costs. The charge is \$0.39 as of January 1, 2018 and will be increased to \$0.42 as of January 1, 2019.

The Board also adopted an additional service charge (the “**Water Reliability Capital Charge**”) on June 18, 2014. The Water Reliability Capital Charge is \$3.30 per month per household as of January 1, 2018 and the Board has approved an increase to \$3.60 effective January 1, 2019. The Water Reliability Capital Charge is intended to collect funds either to pay for water reliability projects and facilities on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a senior basis to or on parity with the 2018A Bonds. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the imposition of the Water Reliability Capital Charge as described above.

The District’s current water commodity charges are as follows:

TABLE 15
EASTERN MUNICIPAL WATER DISTRICT
Current Water Rates⁽¹⁾

	<i>Current Rates Effective January 1, 2018</i>	<i>Rates Effective January 1, 2019</i>
<i>Residential</i>		
Tier 1	\$ 1.03	\$ 1.07
Tier 2	3.35	3.43
Tier 3 (Excessive Use)	5.52	5.67
Tier 4 (Wasteful Use)	11.27	11.59
<i>Non-Residential⁽²⁾</i>		
Tier 1	\$ 3.44	\$ 3.55
Tier 2 (Excessive Use)	7.00	7.21
Tier 3 (Wasteful Use)	11.68	12.02

⁽¹⁾ Tiered rates are charged per 100 cubic feet.

⁽²⁾ Applicable to landscape accounts only. Excludes commercial, industrial and institutional accounts.
Source: Eastern Municipal Water District.

Sewer Rates and Charges. Sewer rates set forth in the table below were approved by the Board on November 15, 2017 and were effective January 1, 2018. Sewer rates are based on daily service charges that vary by geographic location within the District’s service area. Currently, sewer daily service charges range from \$0.85 to \$1.15 per day, subject to the application of the sewer block factors outlined below. The Board has approved increases in the daily charges to bring them to between \$0.90 and \$1.22 per day effective January 1, 2019.

Residential customers are assigned to one of four sewer blocks, determined by the number of people per household. Households with one to two people fall into Block 1 and those with seven or more residents fall into Block 4. Larger households have a higher block factor based on the assumption that they have higher sewer flows because they do more laundry and dishes, take more showers, etc. and, as a result, are charged a higher sewer rate. Sewer service billing is calculated using the block factor multiplied by the sewer rate.

Effective January 1, 2018 the Board has adopted changes to the sewer blocks to reflect the current proportional demands on the wastewater system based on updated customer data. This is expected to result in cost savings despite a minimal increase in the sewer rates. The adopted block factors are as follows:

TABLE 16
EASTERN MUNICIPAL WATER DISTRICT
Sewer Rate Structure

<i>Block Number</i>	<i>Block Factor Effective January 1, 2018</i>	<i>Number of People in Household</i>
1	0.60	1 – 2 people
2	1.00	3 – 4 people
3	1.25	5 – 6 people
4	1.75	7 people or more

Source: Eastern Municipal Water District.

In addition to the above-described sewer rates based upon usage, the District imposes an additional sewer service charge (the “**Sewer Capital Charge**”) described in Table 17 below to cover a portion of the sewer system’s fixed operating costs. The current Sewer Capital Charge is \$2.50 per month per household. The Sewer Capital Charge is intended to collect funds either to pay for sewer capital projects and facilities on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a senior basis to or on parity with the 2018A Bonds. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the imposition of the Sewer Capital Charge as described above.

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

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

<i>Service Area</i>	<i>Water (Effective January 1, 2018)⁽¹⁾</i>				<i>Sewer (Effective January 1, 2018)</i>	
	<i>Tier 1</i>	<i>Tier 2</i>	<i>Fixed Charges⁽²⁾</i>	<i>Average Monthly Rate⁽³⁾</i>	<i>Fixed Charges⁽⁴⁾</i>	<i>Average Monthly Rate⁽⁵⁾</i>
Perris Valley	\$1.03	\$3.35	\$0.50	\$58.29	\$1.15	\$37.00
Menifee	1.03	3.35	0.50	58.29	0.88	28.90
Fruitvale	1.03	1.98	0.50	41.85	0.85	28.00
Diamond Valley	1.03	3.35	0.50	58.29	0.85	28.00
Moreno Valley	1.03	3.35	0.50	58.29	0.87	28.60
Temecula Valley	1.03	3.35	0.50	58.29	1.00	32.50

⁽¹⁾ See Table 15 under the caption “—Water Rates and Charges” for a schedule of water rates and the updated water budget structure that went into effect January 1, 2018.

⁽²⁾ Shown on a daily basis. Water Fixed Charges include a \$0.39 daily charge for water service and an \$0.11 per day charge (\$3.30 monthly) for water supply and reliability capital projects.

⁽³⁾ For example, a water billing for a 3-person residence with a water budget of 1,500 cubic feet for a period of 30 days in the Moreno Valley service area would be calculated as follows: 20% of usage at Tier 1 rate + 80% of usage at Tier 2 rate + \$0.39 daily charge X 30 days + \$0.11 daily charge X 30 days = \$58.29.

⁽⁴⁾ Sewer fixed charges include the sewer capital charge for accounts for which sewer service is rendered through District facilities.

⁽⁵⁾ For example, a sewer billing for 30 days of sewer service in the Moreno Valley service area would be calculated as follows: 30 days X \$0.87 per day + \$2.50 Sewer Capital Charge = \$28.60.

Source: Eastern Municipal Water District.

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

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

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

<i>Fiscal Year</i>	<i>Water Sales</i>	<i>Sewer Service</i>	<i>Recycled Water</i>	<i>Total</i>
2014	\$122,724,175	\$73,100,086	\$6,125,420	\$201,949,681
2015	117,295,152	77,120,505	6,392,763	200,808,420
2016	112,457,426	87,184,856	6,648,809	206,291,091
2017	120,870,937	92,536,116	7,792,169	221,199,222
2018 ⁽¹⁾	135,428,866	96,049,786	9,028,827	240,507,479

⁽¹⁾ Based on unaudited actual results.

Source: Eastern Municipal Water District.

Non-Operating Revenues

Standby (Availability) Charges. Under the Law, the District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewer service standby or availability charge, on land within the boundaries of the District to which water and sewer services, respectively, are made available by the District, whether or not the water or sewer service is actually used. Each such charge may not exceed \$10 per acre per year for each acre (or parcel less than an acre) within the District, except that it may be \$30 per acre per year for each such acre or parcel if any charge in excess of \$10 per acre or parcel is used for the purposes of the particular improvement district in which the acre or parcel is located. Standby charges are collected annually by Riverside County on the secured property tax roll and remitted by Riverside County to the District.

The Law requires that standby or availability charges be approved by ordinance, which is subject to referendum, after public notice and hearing on the proposed charge. The most recently approved standby charges were approved on July 18, 2018 and became effective immediately.

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

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

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

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

Connection fees include water and sewer capacity charges and water and sewer back-up charges. Sewer fees are charged based on a per equivalent dwelling unit (“**EDU**”) basis and water fees are charged based on an equivalent meter size (“**EMS**”) basis. The current connection fee rates effective January 1, 2018 are \$5,226 for water and \$8,709 for sewer, reflecting increases of approximately 4.1% over 2017 rates.

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

Taxes. Moneys that are received from the District’s share of the Riverside County 1% tax levy constitute Water and Sewer Revenues and are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. Only those special improvement districts that received tax

revenue when Proposition 13 became effective in 1978 are entitled to receive a share of the 1% county general purpose property tax levy, based on the allocation procedure under California law. The District received approximately \$36.294 million in property tax revenue from its share of the Riverside County 1% tax levy in Fiscal Year 2018, based on unaudited actual results.

The District is expressly empowered under the Law to levy taxes on all taxable property within its boundaries for the purpose of paying the bonded indebtedness of its special improvement districts and, subject to certain limitations in the Law, the California Revenue and Taxation Code and the California Constitution, for other District purposes. Assessed valuation is determined by the Riverside County Assessor. Total assessed valuation of taxable property within the District for Fiscal Year 2018 was approximately \$269 billion, which was an increase of approximately 5.53% from the previous year. The District currently levies taxes only to service bonds of its special improvement districts. The tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special improvement districts within the District. The proceeds of such taxes do not constitute Water and Sewer Revenues and are neither pledged to nor available to pay the 2018A Bonds.

Riverside County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Accordingly, the County Auditor-Controller distributes 100% of property tax revenues allocated to each city in Riverside County without regard to delinquencies in the payment of property taxes. As a result of the implementation of the Teeter Plan by Riverside County, Riverside County apportions secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which Riverside County acts as the levying or collecting agency. The District does not participate in this plan. As a result, the District is subject to the risk of delinquencies in the amount of 1% *ad valorem* property taxes received by the District. Historically, however, the District's receipt of penalties and interest from prior year delinquencies have more than offset current year delinquencies.

Certain Limitations on Taxes and Other Revenue Sources

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

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

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

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

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and 2% annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate area

within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

The District normally receives between approximately 12 and 14% of its Water and Sewer Revenues (excluding connection fees) from the 1% property tax levy that Riverside County levies in accordance with Proposition 13. Prior legislation diverted approximately \$12.6 million of property tax revenues from the District for the benefit of school districts in each of 2005 and 2006.

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

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

Proposition 1A/Proposition 22. On November 2, 2004, California voters approved Proposition 1A, which amended the California Constitution to reduce the State of California's authority over major local government revenue sources. Under Proposition 1A, the State of California may not: (i) reduce local sales tax rates or alter tax allocations; (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 Fee revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if: (a) the Governor proclaims that the shift is needed due to a severe financial hardship; and (b) the State Legislature approves the shift by a two-thirds vote of both houses. Under such a shift, the State of California must repay local governments for their property tax losses, with interest, within three years.

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

On November 2, 2010, California voters approved Proposition 22, the provisions of which superseded many of the provisions of Proposition 1A. Proposition 22: (i) prohibits the State of California from shifting or delaying the distribution of funds from special districts to schools and community colleges; (ii) eliminates the authority to shift property taxes temporarily during a severe financial hardship of the State; and (iii) restricts the State's authority to use fuel tax revenues to pay debt service on transportation bonds, to borrow or change the distribution of fuel tax revenues or to use Vehicle License Fee revenues to reimburse local governments for state-mandated costs.

Despite the passage of Proposition 22, there can be no assurance that the 1% property tax revenues that the District currently expects to receive will not be temporarily shifted from the District or reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of its share of 1% property tax revenues by the District.

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

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

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

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water and Sewer Revenue Fund is not clear. However, to the extent that moneys in the Water and Sewer Revenue Fund are used to pay the costs of maintaining and operating the Water and Sewer System and debt service on Parity Obligations (including the funding of the debt service reserve funds) and Subordinate Obligations, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit. The District is of the opinion that its water and wastewater charges do not exceed the costs that it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District has covenanted in the Master Resolution and the 2018A Indenture that it will prescribe rates and charges that are sufficient to provide for payment of the 2018A Bonds and other Subordinate Obligations in each year. See the Official Statement under the caption “SECURITY FOR THE 2018A BONDS—Rate Covenant.”

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

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

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

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

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

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

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

Article XIII D defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or

charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

An agency imposing or increasing a property-related fee or charge must provide notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests.

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

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

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

The Court specifically declined to determine in *Bighorn* whether the voters’ initiative power is limited by the statutory requirement that service charges must be set at a level that will pay for operating and maintenance, repairs, replacements, and debt service because “[t]hat issue is not currently before us.” In any event, the District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2018A Bonds. Remedies available to Beneficial Owners of the 2018A Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2018A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable

principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the 2018A Bonds, including the opinion of Bond Counsel (the form of which is attached as Appendix D), are similarly qualified.

Based on the foregoing, the District's ability to adopt new fees or charges or increase existing fees or charges for water or wastewater service will be subject to both majority protest prior to adoption and to the initiative process thereafter. For similar reasons, wholesale customers of the District (for example, the cities of Perris, Hemet and San Jacinto and water districts such as Western Municipal Water District) may be limited in their ability to raise sufficient revenues through fees and charges to pay for wholesale services, which could also have an adverse impact on the District's ability to generate Net Revenues sufficient to pay the 2018A Bonds.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District's tiered water rates are described under the caption "—Operating Revenues—Water Rates and Charges." The District does not expect the *Capistrano Taxpayers Association* ruling to affect its water rate structure or to have a material adverse effect on its financial condition.

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

Proposition 26

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

In 2017, the Court held in *City of San Buenaventura v. United Water Conservation District* that groundwater pumping charges imposed by a groundwater management agency are not "property-related" charges that are subject to Article XIII D of the California Constitution, but remanded the case back to a lower court to determine whether such charges are taxes under Proposition 26. The District is monitoring further

developments in this case, which may affect its ability to seek review of decisions of the San Jacinto Basin Watermaster. See the caption “WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—The Watermaster.”

Pension Plan

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

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports for the District, including a schedule of funding history and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS Plan Summary. The District contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan for all of the District’s full-time and certain of its temporary employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California, including the District. CalPERS plan benefit provisions and all other requirements are established by State of California statute and the District’s Board of Directors.

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

The District is required to contribute at an actuarially determined rate applied to annual covered payroll. The District’s contribution rates for Fiscal Years 2016 and 2017 were 17.812% and 19.163% respectively. Beginning with Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan’s unfunded liability as dollar amounts instead of the prior method of a contribution percentage. The total minimum required contribution is the sum of a plan’s Employer Normal Cost Rate (paid monthly as a percentage of payroll) plus the Employer Unfunded Accrued Liability (the “**UAL**”) contribution billed in dollars amounts. Only the UAL portion can be prepaid. The District’s contribution for Fiscal Year 2018 was 8.194% for the Employer Normal Cost and \$6,501,357 for the UAL. In the CalPERS Actuarial Valuation report dated July 2017, reported as of June 30, 2016, CalPERS provided an annual contribution rate for Fiscal Year 2019 of 8.688% for the Employer Normal Cost Rate and \$8,068,439 for the UAL.

For Fiscal Years 2016 and 2017, the District elected to make its annual actuarially determined employer contributions in a lump sum pre-payment option to CalPERS in the amount of \$8,782,080 and \$9,699,290, respectively. In Fiscal Year 2018, the District prepaid the lump sum UAL required contribution of \$6,501,357. The Employer Normal Cost contributions are paid monthly as part of the payroll reporting process.

Plan participants are required to contribute an actuarially determined percentage of their annual covered salary under the CalPERS plan (the “**Employee Contributions**”) in the amounts of 8%, 7%, and 5.75%, for employees in the first, second and third pension tiers, respectively. The District makes a portion of the Employee Contributions on behalf of employees (the “**EPMC**”).

The EPMC for employees in the first pension tier was reduced over the three-year term of the District’s prior MOU with the Union; the District paid 6.5% of the 8% Employee Contribution (or 81.25% of the total Employee Contribution) in the first year (generally Fiscal Year 2014), 5.5% of the 8% Employee Contribution (or 68.75% of the total Employee Contribution) in the second year (generally Fiscal Year 2015) and 4% of the 8% Employee Contribution (or 50% of the total Employee Contribution) in the third year (generally Fiscal Year 2016). Under the current MOU (as discussed under the caption “THE DISTRICT—Employee Relations”), employees in the first tier are currently paying 6.5% of the 8% Employee Contribution (or 81.25% of the total Employee Contribution) and will pay the full 8% Employee Contribution beginning on January 1, 2019.

The EPMC for employees in the second tier is 3% of the 7% Employee Contribution (or approximately 43% of the Employee Contribution for employees in the second tier). Under the current MOU (as discussed under the caption “THE DISTRICT—Employee Relations”), employees in the second tier are currently paying 6% of the 7% Employee Contribution (or 85.71% of the total Employee Contribution) and will pay the full 7% Employee Contributions beginning on January 1, 2019.

Under AB 340, the District cannot and does not make EPMC contributions for employees in the third tier.

In June 2012, the Governmental Accounting Standards Board (“**GASB**”) approved new standards (GASB Statement No. 68 or “**GASB 68**”) with respect to pension accounting and financial reporting for state and local governments and pension plans. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include the following: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (previously, such unfunded liabilities were typically included as notes to the government’s financial statements); (ii) more components of full pension costs will be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. The reporting requirements for pension plans for government employers took effect in Fiscal Year 2015. Based upon the adoption of GASB 68, beginning with the Fiscal Year 2015 actuarial valuation, the amount formerly identified as the Annual Required Contribution (now the Actuarially Determined Contribution) and the annual reported pension expense will be different. GASB 68 is a change in accounting reporting standards, but it does not change the District’s CalPERS plan funding obligations. See Notes 1 and 6 and the Required Supplementary Information in Appendix B for further information with respect to GASB 68.

The following table summarizes the District’s pension costs for Fiscal Years 2013 through 2017, the latest period for which such information is available:

<i>Fiscal Year</i>	<i>Actuarially Determined Contribution (formerly Annual Required Contribution) (A)</i>	<i>District-Funded Employee Contribution (EPMC) (B)</i>	<i>Employee Contribution (C)</i>	<i>Annual Pension Cost ((A)+(B)+(C))</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation/Asset</i>
2013	\$7,005,690	\$3,230,477	\$ 555,914	\$10,792,081	100%	\$ -
2014	7,695,750	3,043,488	772,577	11,511,815	100	-
2015	8,160,464	2,626,406	1,321,597	12,108,467	100	-
2016	8,782,080	1,942,151	2,070,962	12,795,193	100	-
2017	9,699,290	2,461,058	1,654,254	13,814,602	100	-

(A) Employer's share only.

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

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

Source: Eastern Municipal Water District.

For additional information relating to the District's CalPERS plan, see Notes 1 and 6 in Appendix B.

On December 21, 2016, the CalPERS Board voted to lower its discount rate from the current rate of 7.50% to 7.00% over three years according to the following schedule.

<i>Valuation Date</i>	<i>Fiscal Year</i>	<i>Discount Rate</i>
June 30, 2016	2017-18	7.375%
June 30, 2017	2018-19	7.250
June 30, 2018	2019-20	7.000

For public agencies such as the District, the new discount rate took effect July 1, 2018. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 will also see their contribution rates rise under AB 340. The three-year reduction of the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most miscellaneous retirement plans such as those of the District. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

The practical effect of the above-described change in the discount rate is that the District's contribution rates as a percentage of annual payroll are expected to rise as follows:

<i>Fiscal Year for Required Contribution</i>	<i>Projected Contribution Percentage of Payroll</i>
2018-19	23.4%
2019-20	26.1
2020-21	28.5

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

in Social Security), subject to Consumer Price Index increases.

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

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

401(a) Plan. District employees are not members of the federal Social Security system. However, the District contributes a portion of what ordinarily would be the District's participation of Social Security taxes (using a rate of 7.15% on the first \$16,500 of compensation) to a special trust fund (the "**401(a) Plan**") for each of its employees to provide additional retirement benefits. The District also makes discretionary contributions to the 401(a) Plan on behalf of the General Manager in accordance with the terms of his employment contract. Total contributions to the 401(a) Plan for Fiscal Years 2017, 2016 and 2015, the latest period for which such information is available, were \$768,373, \$797,121 and \$781,765, respectively.

As of January 1, 2014, the District also contributes to the 401(a) Plan in an amount that matches a portion of the employees' voluntary contributions made to the District-sponsored 457 Deferred Compensation Plan. This matching contribution is up to 1.5%, 2.0% and 3.0% of annual base salary for calendar years 2016, 2017 and 2018, respectively. In Fiscal Years 2015, 2016 and 2017, the latest period for which such information is available, employees voluntarily deferred \$2,238,902, \$3,182,946 and \$3,360,339, respectively, into the 457 Deferred Contribution Plan and the District provided matching funding of \$378,780, \$621,066 and \$819,563, respectively, into the 401(a) Plan. Under the current MOU (as discussed under the caption "THE DISTRICT—Employee Relations"), employees may receive a matching contribution of 2%, 3% and 4%, as of July 24, 2016, January 1, 2018 and January 1, 2019, respectively. Currently, approximately 92% of employees voluntarily contribute to the District-sponsored 401(a) Plan; most, but not all, of those employees currently contribute at a rate which maximizes the District's matching contribution. The District does not fund contributions into the 457 Deferred Compensation Plan.

Post-Employment Healthcare Benefits

The District provides post-employment health care benefits to all qualified employees who meet the District's CalPERS plan requirements. This plan is an agent multiple-employer defined benefit other post-employment benefits ("**OPEB**") plan with three tiers of retiree healthcare benefits depending on employee hiring dates.

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

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

The annual required contribution (the “**OPEB ARC**”) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The OPEB ARC is equal to the normal cost each year plus a closed period amortization of the unfunded actuarial liability. Based on the actuarial valuation of the District’s OPEB plan as of June 30, 2017, the estimated OPEB ARC for Fiscal Year 2018 was \$10,833,584. The District contributed \$12,295,200 in July 2017, representing a full funding of the OPEB ARC, plus an additional contribution.

On April 18, 2012, the Board approved the establishment of an irrevocable OPEB trust (the “**OPEB Trust**”) and approved and authorized an agreement with CalPERS to administer the OPEB Trust on its behalf. The District established the OPEB Trust in Fiscal Year 2013 and made initial contributions to the OPEB Trust of approximately \$2,500,000. At the time the OPEB Trust was established, the District planned to contribute an amount approximately equal to 10% of the share of the 1% Riverside County general property tax levy that the District receives annually. See the caption “—Non-Operating Revenues—Taxes.”

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

<i>Fiscal Year</i>	<i>Annual OPEB Cost⁽¹⁾</i>	<i>Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation⁽²⁾</i>
2014	\$ 8,469,000	\$ 6,123,000	\$52,339,036
2015	8,568,000	8,842,531	51,927,505
2016	9,478,577	9,769,135	51,636,947
2017	9,730,444	17,562,209	43,805,182
2018	10,833,854	12,295,200	42,343,836

⁽¹⁾ Equal to the OPEB ARC.

⁽²⁾ See Note 8 in Appendix B for a description of the calculation of the net OPEB obligation.

Source: Eastern Municipal Water District.

See the caption “PROJECTED OPERATING RESULTS” for projected contributions to the OPEB Trust for the current and next four Fiscal Years.

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

- The District will continue to set minimum annual contributions to the OPEB Trust at a level equivalent to 10% of annual property tax receipts plus “pay-as-you-go” for retiree medical premiums.
- The District intends to achieve “full funding” of its OPEB benefits within 20 years, or by Fiscal Year 2033-34. Full funding is defined by the District as funding 90% of the accrued liability on an actuarial basis.
- The District intends to fully fund the actuarially determined OPEB ARC within 10 years, or by Fiscal Year 2023-24.
- The District will adopt a second tier of benefits for future-hired employees based upon a maximum District contribution of the CalPERS-defined minimum monthly contribution provided for under the Public Employees Medical and Hospital Care Act, which is set at \$133 per month for 2018, and generally indexed by CalPERS annually to the Consumer Price Index.

- The District will continue to use appropriate assumptions in its assumed rates of return, rates of medical inflation, retirement ages and mortality tables in consultation with its professional actuaries.
- The District will consider using one-time gains in net operating margin to make additional contributions to the OPEB Trust to reduce the liability sooner and potentially achieve its funding goal sooner than Fiscal Year 2033-34.
- If necessary to achieve the funding goals noted above, the District will consider other funding sources including, but not limited to, a rate component and employee and/or retiree contributions.
- The District will formally re-evaluate funding strategies at least biennially, coincident with required actuarial valuations.

In furtherance of the above policy principles, the District implemented the new tier of benefits for employees hired on or after March 26, 2014. Based upon an actuarial study performed by Bartel & Associates, the expected present value savings associated with the implementation of significantly reduced benefits for future-hired employees exceeded \$100 million. On September 17, 2014, the Board approved a one-time contribution of \$2,000,000 into the OPEB Trust in addition to the Fiscal Year 2015 budgeted contribution of \$6,842,531. Including the additional \$2,000,000 contribution, the District paid more than its actuarially determined OPEB ARC for Fiscal Year 2015. For Fiscal Year 2016, the District made the full OPEB ARC contribution of \$9,769,135. In Fiscal Year 2017, the District's contribution of \$17,562,209 represented the estimated \$10,062,209 OPEB ARC set forth in the actuarial valuation report dated March 1, 2016, plus an additional contribution of \$7,500,000 approved by the Board on June 7, 2017.

As discussed above, in Fiscal Year 2018, the District's OPEB contribution totaled \$12,295,200. This contribution included a budgeted additional funding of \$1,461,616 in addition to the \$10,833,584 OPEB ARC, based on an actuarial valuation prepared by the Nyhart Company in 2017.

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the District's financial statements set forth in Appendix B, presents multi-year trend information about whether the actuarial value of OPEB plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are described in detail in Note 8 to Appendix B.

Under GASB Statement No. 75 ("**GASB 75**"), the District reports its OPEB liability in its financial statements as part of its financial position. Because the District is responsible only for OPEB liabilities related to its own employees and because the District's OPEB is administered through the OPEB Trust, the District will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the OPEB Trust that are restricted to making benefit payments.

GASB 75 also requires the District to present more extensive disclosures and required supplementary information about its OPEB liabilities in the notes to its financial statements. Among the new disclosures is a

description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the District, a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a District actual OPEB contributions to its contribution requirements.

The District intends to comply with GASB 75 beginning with its Fiscal Year 2018 financial statements.

For additional information about the District's OPEB plan, benefit tiers and contribution rates, see Note 8 in Appendix B.

District Reserves

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

HISTORICAL OPERATING RESULTS

The following table summarizes the District's operating revenues, operating expenses and changes in net assets for the last five Fiscal Years. The operating revenues, operating expenses and changes in net assets in each of such Fiscal Years shown are derived from unaudited actual results for Fiscal Year 2018 and the audited financial statements of the District for prior Fiscal Years. The audited financial statements of the District for Fiscal Year 2017 and the report thereon of Davis Farr LLP (the "Auditor") are included as Appendix B to the Official Statement. The following table is derived from such audited financial statements and the audited financial statements for prior Fiscal Years, including the notes contained therein, and should be read in conjunction with discussion below the table. The summary operating results contained in the below table excludes certain non-cash items, including but not limited to mark-to-market swap values and pension liabilities reported pursuant to GASB 68, and reflect certain other adjustments. See Appendix B for further information with respect to such non-cash items. Debt service coverage set forth in the summary operating results is calculated in accordance with the Master Resolution and the 2018A Indenture. See Appendix C for certain definitions relating to Net Revenues from which the 2018A Bonds will be paid. The Auditor has not reviewed or audited the summary operating results or any other portion of the Official Statement. The summary operating results are qualified in their entirety by reference to Appendix B, including the notes thereto, and Appendix C.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District ("GAAP"), and the District applies all relevant Governmental Accounting Standards Board pronouncements. In certain cases, GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year.

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

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

and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

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

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

See Appendix B for a discussion of the District's accounting practices. Except as otherwise expressly noted herein, all financial information that is derived from the information that is set forth in Appendix B reflects the application of GAAP.

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

	<i>Fiscal Year 2014</i>	<i>Fiscal Year 2015</i>	<i>Fiscal Year 2016</i>	<i>Fiscal Year 2017</i>	<i>Fiscal Year 2018⁽⁴⁾</i>
OPERATING REVENUES:					
Water Sales	\$ 122,724,175	\$ 117,295,152	\$ 112,457,426	\$ 120,870,937	\$ 135,428,866
Sewer Service Charges	73,100,086	77,120,505	87,184,856	92,536,116	96,049,786
Recycled Water Sales	<u>6,125,420</u>	<u>6,392,763</u>	<u>6,648,809</u>	<u>7,792,169</u>	<u>9,028,827</u>
Total Operating Revenues	\$ 201,949,681	\$ 200,808,420	\$ 206,291,091	\$ 221,199,222	\$ 240,507,479
OPERATING EXPENSES:					
Water purchases	\$ 63,850,688	\$ 59,040,009	\$ 50,334,462 ⁽²⁾	\$ 57,512,425	\$ 65,846,363
Water operations	44,193,507	45,691,510	43,582,087	44,089,564	44,202,187
Sewer operations	48,703,113	48,845,706	48,383,122	48,297,266	48,527,623
OPEB Trust ⁽¹⁾	6,123,000	8,568,000	9,478,577	9,732,444	12,295,173
General and administrative	<u>28,352,049</u>	<u>28,677,026</u>	<u>29,687,364</u>	<u>36,283,686⁽³⁾</u>	<u>43,907,997⁽⁵⁾</u>
Total Operating Expenses	\$ 191,222,357	\$ 190,822,251	\$ 181,465,612	\$ 195,915,385	\$ 214,779,343
OPERATING INCOME (LOSS)	\$ 10,727,324	\$ 9,986,169	\$ 24,825,479	\$ 25,283,837	\$ 25,728,136
NON-OPERATING REVENUES:					
Property taxes - General Purpose	\$ 28,061,489	\$ 30,843,713	\$ 32,271,305	\$ 33,971,127	\$ 36,294,389
Standby charges	5,700,591	5,735,466	5,784,242	5,831,357	5,769,853
Wastewater connection fees	21,162,000	18,690,317	33,147,973	27,982,278	31,045,813
Water connection fees	7,506,888	8,079,280	10,587,777	10,646,297	13,524,078
Water supply development fee	1,480,973	1,538,026	1,980,034	1,936,622	2,354,984
Interest income	3,133,313	3,092,643	3,405,039	4,733,897	8,181,973
Grants/Other Income/(Expenses)	<u>6,161,906</u>	<u>4,659,388</u>	<u>5,683,592</u>	<u>2,669,881</u>	<u>6,226,553</u>
Total Non-Operating Revenues	\$ 73,207,160	\$ 72,638,833	\$ 92,859,962	\$ 87,771,459	\$ 103,397,643
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE	\$ 83,934,484	\$ 82,625,002	\$ 117,685,441	\$ 113,055,296	\$ 129,125,779
PARITY OBLIGATION DEBT SERVICE:					
Parity Obligation Payments	\$ 35,521,108	\$ 26,604,369	\$ 22,545,830	\$ 15,651,578	\$ 4,907,150
State Contract Debt Service Payments	<u>4,013,353</u>	<u>5,877,892</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Parity Obligation Debt Service	\$ 39,534,461	\$ 32,482,261	\$ 22,545,830	\$ 15,651,578	\$ 4,907,150
DEBT SERVICE COVERAGE	2.1 x	2.5 x	5.2 x	7.2 x	26.3 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	\$ 44,400,023	\$ 50,142,741	\$ 95,139,611	\$ 97,403,718	\$ 124,218,629
SUBORDINATE OBLIGATION DEBT SERVICE					
Subordinate Obligation Payments	\$ -	\$ 2,917,542	\$ 12,341,530	\$ 22,414,814	\$ 39,076,172
State Contract Debt Service Payments	<u>-</u>	<u>-</u>	<u>7,850,723</u>	<u>6,521,019</u>	<u>6,521,018</u>
Total Subordinate Obligation Debt Service	\$ -	\$ 2,917,542	\$ 20,192,253	\$ 28,935,832	\$ 45,597,190
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	N/A	17.2 x	4.7 x	3.4 x	2.7 x
REMAINING REVENUES	\$ 44,400,023	\$ 47,225,199	\$ 74,947,358	\$ 68,467,886	\$ 78,621,439
TOTAL DEBT SERVICE	\$ 39,534,461	\$ 35,399,803	\$ 42,738,083	\$ 44,587,410	\$ 50,504,340
ALL-IN DEBT SERVICE COVERAGE	2.1 x	2.3 x	2.8 x	2.5 x	2.6 x

⁽¹⁾ See the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits." Reflects \$2,000,000 contribution to OPEB Trust in September 2014.

⁽²⁾ Decrease from Fiscal Year 2015 reflects reduced water purchases as a result of Statewide drought and mandatory State conservation orders with respect thereto. See the caption "WATER RESOURCES, FACILITIES AND USAGE—Recent Drought."

⁽³⁾ Increase from Fiscal Year 2016 includes a \$4.6 million increase in unallocated pension expense.

⁽⁴⁾ Reflects unaudited actual Fiscal Year 2018 results.

⁽⁵⁾ Increase from Fiscal Year 2017 includes a \$7.6 million increase in unallocated pension expense.

Source: Eastern Municipal Water District.

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

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

PROJECTED OPERATING RESULTS

The table of projected District revenues and expenses and debt service coverage for the current and next four Fiscal Years has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. The projected operating results contained in the below table exclude certain non-cash items, including but not limited to mark-to-market swap values and pension liabilities reported pursuant to GASB 68. Projected debt service coverage set forth in the below table is calculated in accordance with the Master Resolution and the 2018A Indenture. This information has been provided for comparison purposes. The assumptions for operating revenue, operating expenses and debt service are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material. See Table 4 above under the caption "THE DISTRICT—Debt Structure of the District—Summary of Debt Service" for a fuller presentation of debt service with respect to outstanding Parity Obligations and Subordinate Obligations payable from Net Water and Sewer Revenues.

As discussed under the caption "WATER RESOURCES, FACILITIES AND USAGE—Recent Drought," the California Governor and various State of California entities issued orders and regulations over the last several years in connection with the recent Statewide drought. In response to such measures, the District is currently implementing Stage 2 of its WSCP. The below projections reflect the continued implementation of Stage 2 of the WSCP to discourage wasteful water use. There can be no assurance that water supplies or sales will not differ materially from the below projections as a result of changes in hydrological conditions or the State of California or the District response thereto in future years. The District does not believe that the implementation of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the 2018A Bonds when due given the District's imposition of fixed charges, including the Water Reliability Capital Charge and the Sewer Capital Charge described under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues," as well as the District's efforts to diversify its water supplies and decrease its reliance on imported water that is purchased from MWD. See the caption "WATER RESOURCES, FACILITIES AND USAGE." The District has covenanted to set rates and charges in amounts

that are sufficient to pay the 2018A Bonds. See the Official Statement under the caption “SECURITY FOR THE 2018A BONDS—Rate Covenant.”

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

	<i>Fiscal Year 2019⁽¹⁾</i>	<i>Fiscal Year 2020</i>	<i>Fiscal Year 2021</i>	<i>Fiscal Year 2022</i>	<i>Fiscal Year 2023</i>
OPERATING REVENUES:					
Water Sales ⁽²⁾	\$ 132,697,300	\$ 141,267,696	\$ 147,644,219	\$ 154,288,209	\$ 161,231,178
Sewer Service Charges ⁽³⁾	97,023,600	101,874,800	106,968,500	112,316,900	117,932,700
Recycled Water Sales ⁽⁴⁾	<u>10,480,900</u>	<u>11,004,900</u>	<u>11,555,100</u>	<u>12,132,900</u>	<u>12,739,500</u>
Total Operating Revenues	\$ 240,201,800	\$ 254,147,396	\$ 266,167,819	\$ 278,738,009	\$ 291,903,378
OPERATING EXPENSES:					
Water purchases ⁽⁵⁾	\$ 67,901,000	\$ 70,617,040	\$ 73,441,722	\$ 76,379,390	\$ 79,434,566
Water operations ⁽⁶⁾	48,604,335	50,548,509	52,570,449	54,673,267	56,860,198
Sewer operations ⁽⁷⁾	52,238,323	54,327,856	56,500,970	58,761,009	61,111,449
OPEB Trust ⁽⁸⁾	13,524,691	14,200,925	14,910,971	15,656,520	16,439,346
General and administrative ⁽⁹⁾	<u>39,244,435</u>	<u>40,814,212</u>	<u>42,446,781</u>	<u>44,144,652</u>	<u>45,910,438</u>
Total Operating Expenses	\$ 221,512,784	\$ 230,508,542	\$ 239,870,893	\$ 249,614,838	\$ 259,755,997
OPERATING INCOME (LOSS)	\$ 18,689,016	\$ 23,638,854	\$ 26,296,926	\$ 29,123,171	\$ 32,147,381
NON-OPERATING REVENUES:					
Property taxes - General Purpose ⁽¹⁰⁾	\$ 34,653,947	\$ 35,000,486	\$ 35,350,491	\$ 35,703,996	\$ 36,061,036
Standby charges ⁽¹¹⁾	5,948,567	6,008,053	6,068,133	6,128,815	6,190,103
Wastewater connection fees ⁽¹²⁾	29,427,453	31,029,808	32,794,460	34,637,064	36,560,709
Water connection fees ⁽¹³⁾	13,940,763	15,059,424	16,284,191	17,621,968	19,080,026
Water supply development fee ⁽¹⁴⁾	861,000	903,000	948,000	996,000	1,047,000
Interest income ⁽¹⁵⁾	7,539,481	8,507,288	9,628,350	11,034,321	11,199,835
Grants/Other Income/(Expenses) ⁽¹⁶⁾	<u>6,915,553</u>	<u>7,192,175</u>	<u>7,479,862</u>	<u>7,779,057</u>	<u>8,090,219</u>
Total Non-Operating Revenues	\$ 99,286,764	\$ 103,700,234	\$ 108,553,487	\$ 113,901,220	\$ 118,228,928
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE ⁽¹⁷⁾	\$ 117,975,780	\$ 127,339,088	\$ 134,850,413	\$ 143,024,391	\$ 150,376,309
PARITY OBLIGATION DEBT SERVICE ⁽¹⁸⁾	\$ 4,881,500	\$ 4,875,625	\$ 4,868,750	\$ -	\$ -
PARITY OBLIGATION DEBT SERVICE COVERAGE ⁽¹⁹⁾	24.2 x	26.1 x	27.7 x	N/A	N/A
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS ⁽²⁰⁾	\$ 113,094,280	\$ 122,463,463	\$ 129,981,663	\$ 143,024,391	\$ 150,376,309
SUBORDINATE OBLIGATION DEBT SERVICE ⁽²¹⁾	\$ 44,421,353	\$ 45,382,536	\$ 48,338,996	\$ 55,908,108	\$ 55,913,979
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE ⁽²²⁾	2.5 x	2.7 x	2.7 x	2.6 x	2.7 x
REMAINING REVENUES ⁽²³⁾	\$ 68,672,927	\$ 77,080,927	\$ 81,642,667	\$ 87,116,283	\$ 94,462,330
TOTAL DEBT SERVICE ⁽²⁴⁾	\$ 49,302,853	\$ 50,258,161	\$ 53,207,746	\$ 55,908,108	\$ 55,913,979
ALL-IN DEBT SERVICE COVERAGE ⁽²⁵⁾	2.4 x	2.5 x	2.5 x	2.6 x	2.7 x

⁽¹⁾ Reflects budgeted Fiscal Year 2019 amounts with certain adjustments.

⁽²⁾ Based on District projections of increases in connections. Also reflects \$3.30 monthly Water Reliability Capital Charge and \$0.39 daily service charge. Assumes additional \$1.20 monthly increase to such fixed charges effective January 1, 2019, additional \$2.10 monthly increase to Water Reliability Capital Charge effective January 1, 2020, additional \$0.60 monthly increase to Water Reliability Capital Charge effective January 1, 2021 and additional \$0.60 monthly increase to Water Reliability Capital Charge effective January 1, 2022. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Water sales projected at approximately 78,000 acre feet per year. Increases in rates and charges are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

(Footnotes Continued on Following Page)

- (3) Based on District projections of increases in connections and projected rate increases of approximately 5.0% per annum beginning January 1, 2019 to cover energy, labor and other operational costs. Also reflects \$2.50 monthly Sewer Capital Charge. See the captions “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Increases in rates and charges are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (4) Based on District projections of increases in connections and projected rate increases of approximately 5.0% per annum. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Increases in rates are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (5) Based on District projections. Does not include costs associated with water purchases for groundwater recharge purposes under the Settlement Act as described under the caption “WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Soboba Settlement Agreement.” Assumes potable water supply mix of 70% imported water, or approximately 56,000 acre feet, in Fiscal Years 2019 through 2023.
- (6) Projected to increase by approximately 4.0% per annum.
- (7) Projected to increase by approximately 4.0% per annum.
- (8) Reflects projected deposits to OPEB Trust described under the caption “HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits.”
- (9) Fiscal Year 2019 amount based on adopted budget. Projected to increase approximately 4.0% per annum thereafter. Increases reflect projections of higher wages and benefits due to contractual obligations.
- (10) Projected to increase by approximately 1.0% per annum, reflecting increased assessed values in the District service area and additional taxes received as a result of the dissolution of redevelopment agencies in the State of California and the concomitant elimination of certain tax increment sharing obligations. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Taxes.”
- (11) Projected to increase by approximately 1.0% per annum. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Standby (Availability) Charges.”
- (12) One-time charge revenues received from developers used to finance wastewater treatment plant facility expansions, transmission mains, sewer lift stations and disposal facilities. Reflects District projections of development within the District. Wastewater EDUs are projected to increase from 3,370 in Fiscal Year 2019 to 3,720 in Fiscal Year 2023. The proposed rates over the forecast period range from \$8,732 per EDU in Fiscal Year 2019 to \$9,828 per EDU in Fiscal Year 2023. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (13) One-time charge revenues received from developers used to finance water treatment plant facility expansions, distribution mains, water pumping plants, wells and storage tanks. Reflects District projections of development within the District. Water EMSes are projected to increase from 2,870 in Fiscal Year 2019 to 3,490 in Fiscal Year 2023. The proposed rates over the forecast period range from \$4,857 in Fiscal Year 2019 to \$5,467 in Fiscal Year 2023. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (14) Established in 2004 at \$300 per connection. Proceeds support projects that will provide for improved utilization of the District’s available resources. Projected to remain at \$300 over the forecast period. Projected revenue is based on the projected water EMSes described in Footnote (13).
- (15) As of June 30, 2018, the District had approximately \$357,103,000 in available cash reserves, representing approximately 636 days’ cash on hand. The District’s total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$532 million and is invested in various securities with an average yield of approximately 1.57% as of February 28, 2018. See the caption “THE DISTRICT—District Reserve Policy.”
- (16) Includes delinquency charges, industrial permitting, meter rentals, plan checks and other miscellaneous revenues, which are projected to remain stable, plus grant revenues, less disposal of plant assets, abandonments, bad debt expense, special studies and miscellaneous interest expenses. Net other income is projected to increase by approximately 4.0% per annum.
- (17) Operating Income (Loss) plus Total Non-Operating Revenues.
- (18) See the caption “THE DISTRICT—Debt Structure of the District—Parity Obligations.” These obligations mature in Fiscal Year 2021.
- (19) Net Water and Sewer Revenues for Debt Coverage divided by Parity Obligation Debt Service.
- (20) Net Water and Sewer Revenues for Debt Coverage minus Parity Obligation Debt Service.
- (21) Assumes issuance of \$53,485,000 principal amount of 2018B Bonds and \$47,780,000 principal amount of 2018C Bonds on or about the date of issuance of the 2018A Bonds. Interest on the 2018B Bonds is calculated at the LIBOR Swap rate of 3.10% per annum through the projection period. Interest on the hedged portion of the 2018C Bonds is calculated at the SIFMA Swap rate of 5.125% per annum through the termination date of the SIFMA Swap on July 1, 2020. Reflects debt service on the 2015A Bonds, 2017A Bonds, 2017B Bonds, 2018A Bonds and unhedged portion of 2018C Bonds at projected interest rates of 1.0%, 1.5%, 2.0%, 2.5% and 2.5% for Fiscal Years 2019 through 2023, respectively. Reflects scheduled debt service on the 2015B IPA, 2016A Bonds, 2016B IPA, 2017C Bonds and 2017D IPA as well as the State Contracts. Debt service figures differ from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions on variable rate obligations.
- (22) Revenues Available for Subordinate Obligations divided by Total Subordinate Obligation Debt Service.
- (23) Revenues Available for Subordinate Obligations minus Total Subordinate Obligation Debt Service.
- (24) Parity Obligation Debt Service plus Total Subordinate Obligation Debt Service.
- (25) Net Water and Sewer Revenues for Debt Coverage divided by Total Debt Service.

Source: Eastern Municipal Water District.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS

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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



Delivering value to our customers and the communities we serve by providing safe, reliable, economical and environmentally sustainable water, wastewater and recycled water services.

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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



Prepared by the

Eastern Municipal Water District
Finance Department

2270 Trumble Road
Perris, CA 92570

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Eastern Municipal Water District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

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Eastern Municipal Water District
Comprehensive Annual Financial Report
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INTRODUCTORY SECTION

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November 2, 2017

Board of Directors
Eastern Municipal Water District

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

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

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2017. The independent auditors' report is presented as the first component of the financial section of this report.

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

Board of Directors

David J. Slawson, *President* Ronald W. Sullivan, *Vice President* Joseph J. Kuebler, CPA, *Treasurer* Philip E. Paule Randy A. Record

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PROFILE OF THE DISTRICT



The Eastern Municipal Water District was incorporated in 1950 under the Municipal Water District Act of 1911 and the provisions of the California Water Code. Its primary purpose was to import Colorado River water to its service area to augment local water supplies. Prior to the District's formation, the local water supply was primarily from groundwater wells.

The District is governed by a five-member Board of Directors elected by the public for a four-year term, each representing comparably sized districts based on population. This five-member Board is responsible to the general public within the District

for proper conduct of District affairs. The District is a member of the Metropolitan Water District of Southern California (MWD), a cooperative organization of twenty-six member agencies responsible for providing imported water to Southern California.

The District is located in Southern California and its service area lies within western Riverside County, encompassing approximately 555 square miles. In 1951, the District's service area consisted of 86 square miles. Today, growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72 million when formed to approximately \$70 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County has a population of 2.4 million people. Of this population, the District serves approximately 816,000 or 34 percent, including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar, and unincorporated areas in Riverside County. A map of the service area is shown on page 17 of this report.

The mission of the District is to deliver value to its customers and the communities it serves by providing safe, reliable, economical, and environmentally sustainable water, wastewater, and recycled water services. It provides three primary products and services: potable water, wastewater collection and treatment, and recycled water.

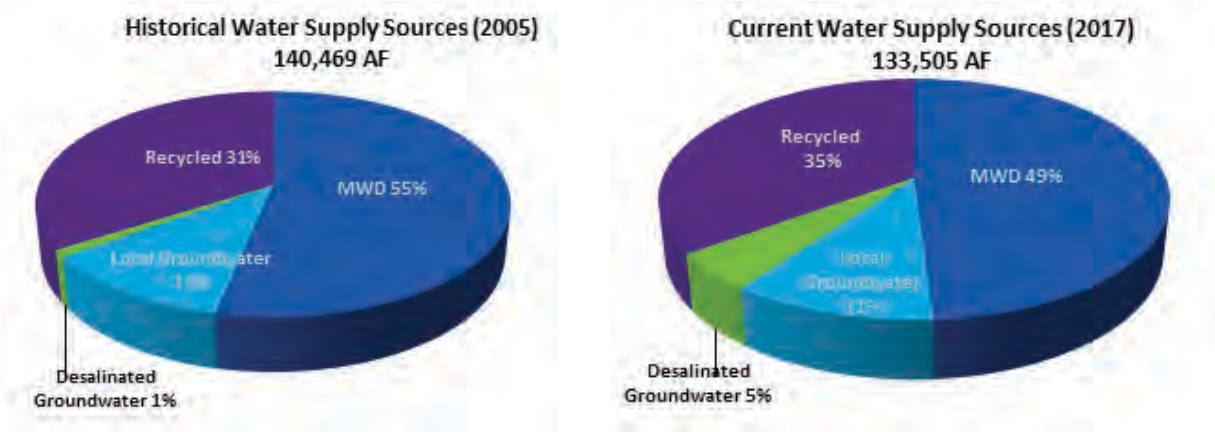
The District's approximately 611 employees are responsible for providing excellent customer service driven by its standards to provide safe, reliable, economical, and environmentally friendly services.

WATER SUPPLY AND RELIABILITY

The District's total water supplies include 16 percent local groundwater, 49 percent imported water, and 35 percent recycled water. The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2005, the District received 55 percent of its water through purchases from MWD, which in turn obtains

its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. In 2017, the District's level of imported water was 49 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.



SEWER AND RECYCLED WATER SERVICES

For the purposes of transmission, treatment, and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRF), for which methods of treatment vary. The facilities are capable of treating 69 million gallons per day (MGD) of wastewater and serve approximately 816,000 people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to infrastructure replacement costs. They are linked through a network of 1,790 miles of pipeline and 46 active lift stations.

The District currently generates approximately 43 MGD of effluent at its regional water reclamation facilities. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use other local groundwater supplies. In 2017, approximately 46,431 acre feet (AF) or 100 percent of the total recycled water produced, was sold to customers.

THE LOCAL ECONOMY

The District is located within Riverside County which is the fourth largest county in the State. Riverside County and San Bernardino County comprises the Inland Empire, which is one of the fastest growing metropolitan areas in the nation. The Inland Empire covers approximately 27,000 square miles with a population of about 4 million. Job growth in the region exceeded that of the State and other areas in Southern California from 2011 to 2015. In 2016, the Inland Empire's job growth of 47,500 jobs ranked second after Los Angeles' 109,200 jobs and next

above San Francisco's 43,800 jobs. This growth has brought the unemployment rate down and contributed to rising personal income, which has supported growth in consumer-driven industries such as leisure and hospitality. Wages and salaries increased 3.8 percent in 2015 compared to the State's 3 percent job growth, exceeding the pre-recession numbers. The unemployment rate was down from 8.2 percent in 2014 to 6.5 percent in 2015 and down 13.7 percent from its highpoint in 2010. Sectors of employment gain included business and professional services, transportation, warehousing, construction, and manufacturing. Job increases also occurred in wholesale trade and technical services. From the first quarter of 2016 to the first quarter of 2017, average annual wages increased 6.5 percent compared to the nation's 5.7 percent increase. The increase in wages during this period was spread across all industries including administrative support, management, health care, manufacturing, and professional and technical services. The State's inland counties, including Riverside County, are forecast to show above average job growth potential in the next few years.



The Inland Empire is an affordable housing alternative to the higher priced homes in the coastal regions of Southern California. Home sales were up in 2015 as a result of job growth and low interest rates. The area has continued to see a steady increase in real estate prices for the fourth consecutive year due to low inventory of houses for sale and increasing demand resulting from higher income and migration to the region. Home sales in Riverside County increased 9.9 percent in the beginning of January 2017 compared to the prior year. In San Bernardino, home

sales were up 6.7 percent in January 2017 compared to January 2016. Across the Inland Empire, home prices were up 7 percent from January 2016 to January 2017. Most cities in the Inland Empire are forecast to outperform the national average for home price gains in 2017. Nationwide, home prices are predicted to increase 3 percent through February 2018 while the Inland Empire forecasts range from 4.4 percent to 5.2 percent. Non-residential construction which was depressed from 2009 to 2012 bounced back in 2013 with an increase of new investment in the retail and industrial sectors with several large infrastructure projects and notable growth in the warehousing sector. Industrial vacancy rates continued to decline due to increasing demand for space. The vacancy rate for warehouse and distribution properties was 8 percent or 0.6 percent lower than the prior year while rent increased 3.4 percent. Permitting for industrial space grew the most in Riverside County, increasing 365 percent year to date through the second quarter of 2017.

The transportation, warehousing, and wholesaling industries employed over 150,000 workers in the Inland Empire in 2015. Transportation and warehousing jobs increased 7.3 percent and wholesale industry employment increased by 6.1 percent. The area has benefited from an increase in activity at the Ports of Los Angeles and Long Beach, which have experienced increases of 3.8 percent in 2014 and 1.6 percent in 2015 in cargo passing through these two ports. Also in 2015, online retailer Amazon announced the creation of 1,000 jobs at its three Inland Empire fulfillment centers in addition to 4,000 full-time jobs created at its regional fulfillment centers since 2012 (one of which is located in the District's service area of Moreno Valley). The construction sector has been having a strong year in 2017 due to strong demand for residential and commercial properties. For the period July 2016 to July 2017, the leisure and hospitality sector grew 3.4 percent while the transportation, warehouse, and utilities

sectors expanded payroll by 4.4 percent. Continued growth is expected as plans for the World Logistics Center in Moreno Valley continue to move forward.

The District's population has grown by nearly 49 percent since 2001 and experienced modest new connections during the national economic downturn. The recession had a large impact on Riverside County, however, local recovery has increased over recent years. In 2014, Riverside County added 26,000 jobs which is equivalent to 4.4 percent growth, unemployment decreased from 10.3 percent in 2013 to 8.2 percent in 2014 and 7.1 percent in 2015. In 2016, 23,300 jobs were added in Riverside County, an increase of 3.6 percent compared to Southern California's job growth of 2.5 percent. Job growth in the County was strongest in leisure and hospitality, education and healthcare, construction and government. The population increased an average of 1.2 percent each year and is projected to increase by 1.3 percent in 2017. Annual growth is expected at an average of 1.2 percent through 2022. The County's central location and proximity to the ports of Los Angeles and Long Beach in addition to affordable land and large storage facilities makes it an ideal region for transportation and distribution of goods. As the economic recovery continues to increase the value of real estate in the coastal regions of Southern California, residents and businesses turn their attention to affordable land, housing, and rental in Riverside County.

Riverside County's property assessment roll for the fiscal year 2017 has exceeded the record set in fiscal year 2008 with a value of \$255 billion, 5.08 percent over fiscal year 2016. This is the fourth consecutive year of growth, exceeding the County's peak assessment roll of \$242.9 billion in 2008.

The District's property assessment roll for its service areas increased \$3.8 billion or 5.7 percent in fiscal year 2017. Its service areas include the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County. The largest growth among the District's incorporated service areas are in the cities of Menifee, 8.3 percent; Moreno Valley, 8.1 percent; and Perris, 8.2 percent. In 2014, Menifee was the second fastest growing city in Riverside County and the sixth fastest growing city in the State. It has moved forward with a \$100 million capital improvement program encouraging development in the area.



The City of Perris has, over the recent years, introduced additions to its downtown area which include the Drop Zone Waterpark, Big League Dreams sports complex, the completion of a major freeway intersection, and exterior facades for many existing downtown buildings. It also recently introduced the \$247 million Metrolink commuter train system stretching 24 miles, linking Perris to Riverside and accommodating approximately 4,000 passengers each day. Other recent year developments in the area include a Walmart Supercenter and a Home Depot e-commerce fulfillment center. Moreno Valley is expanding with new retail and restaurant designations, health care providers, employment centers, and industrial development. Recent construction activities in Moreno Valley include Aldi Food Market and Fisker Automotive Technology.

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles and Long Beach complex, Los Angeles International Airport (LAX), Ontario International Airport (ONT), and Port of San Diego. Additionally, the March Air Reserve Base (MARB), a 12 square-mile airfield and logistics center, is located within the District.

SOUND FINANCIAL POLICIES AND PRACTICES

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

WATER AND SEWER RATES

In 2009, the District implemented its water budget based tiered rate structure for water sales. This rate structure is designed to promote water conservation by encouraging efficient water use and discouraging wasteful water usage. The District’s water budget-based tiered rate structure sets budgets for indoor usage based on gallons per person per day multiplied by the number of persons in the home, and for outdoor usage based on each property’s irrigated area multiplied by the daily evapotranspiration (ET) rate and a conservation factor based upon the age of the home and model landscaping ordinances then in effect.

		<u>Price / CCF</u>
Within Budget	Indoor Usage Budget Persons x 60 GPD	Tier 1: \$1.90
	Outdoor Usage Budget Irrigated Area x ET Factor x Conservation Factor	Tier 2: \$3.44
Over Budget	Excessive Use Up to 50% over budget	Tier 3: \$6.22
	Wasteful Use More than 50% over budget	Tier 4: \$11.39

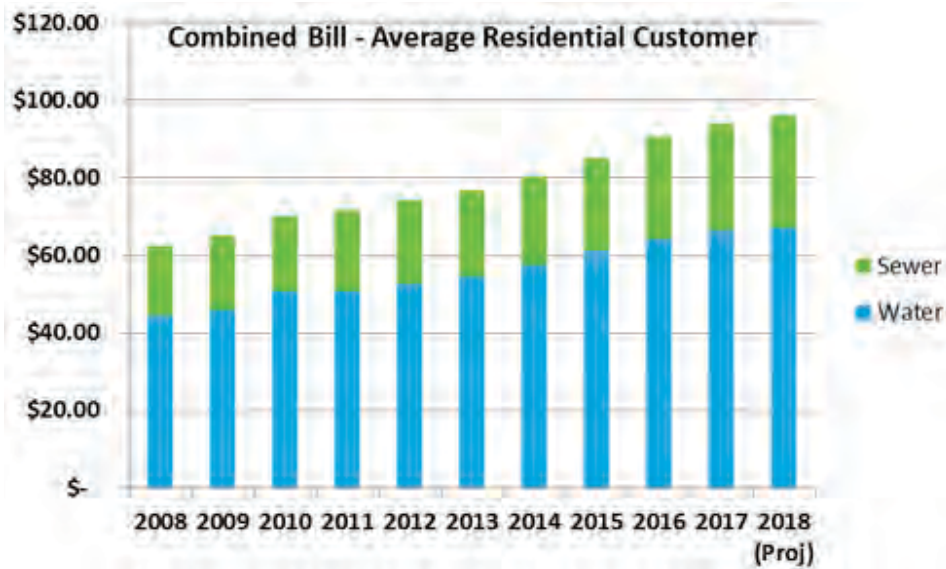
During a water shortage, budgets are adjusted and/or tiers are eliminated to send the strongest pricing signals possible to customers regarding their water use. (See “Drought and Water Shortage Contingency Plan” on page 7).

In 2013, the District implemented a sewer block rate structure based on the number of people occupying a property. Households with fewer than 3 people are charged 25 percent less than homes with 3 or 4 people. Conversely, homes with 5 or 6 people are charged 25 percent more than homes with 3 or 4 people. Block sewer rates are designed to be more fair and equitable to customers and revenue neutral to the District.

In 2014 and 2015, the District adopted increases in water rates and fixed service charges, with separate capital charges for water and sewer services, to fund water supply reliability and capital replacement projects. In June 2016, the Board approved additional adjustments to the daily service charge for the purpose of covering a portion of the water and sewer systems’ fixed operating costs.

The District’s allocation-based tiered water rate structure together with its conservation, outreach, and education programs, is designed to meet State mandated reductions in water usage while also meeting the District’s financial goals. In 2016, as a result of conservation efforts during the extended drought conditions, domestic water sales decreased by 13,600 AF or 17 percent from 2015. However, due to the tiered water rate structure and a decrease in water purchases, the corresponding decrease in domestic water dollars sales was only 6 percent. Overall, total revenues exceeded the fiscal year 2016 forecast, expenses were lower than expected, and the resulting net operating margin was well above budget.

The chart below reflects the monthly charges for an average residential customer with a household of 4 people in the District's service area.



Effective January 1, 2017, the Board approved increases in water use rates, daily service charge, and water supply and reliability capital projects charge to recover the increase in imported water cost from MWD and to provide funds for investing in the preservation and protection of the local water supply. The impact to a typical water bill is approximately \$2.25 per month.

Effective July 1, 2016, sewer rates increased to recover the cost to collect, treat, and recycle or dispose of wastewater. The sewer system capital projects charge will also increase to provide funds for future sewer system capital improvement projects essential for maintaining the District's four water reclamation facilities and meeting regulatory and environmental requirements. The impact to a typical sewer bill is approximately \$1.12 per month.

DROUGHT AND WATER SHORTAGE CONTINGENCY PLAN



In January 2014, the Governor declared a drought state of emergency encouraging local suppliers to reduce usage by 20 percent and have local suppliers develop or update water contingency plans. The District amended its Water Shortage Contingency Plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP is designed to regulate the delivery and consumption of water usage during water shortages. It includes five stages, with the first two stages being voluntary measures to encourage conservation. Stages 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use.

On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (State Board) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. To implement the Governor’s orders, the State Board passed Emergency Water Conservation Regulations. On May 6, 2015, the State Board adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. The District’s Board of Directors took multiple actions to move through various stages of the WSCP in response to the drought, using the allocation-based rate structure to send pricing signals to encourage changes in water use when needed:

Stage	Date Approved	Description	Actions
Stage 1	April 2011	Supply Watch	Voluntary reduction up to 10%
Stage 2	April 2014	Supply Alert	Voluntary reduction up to 25%
Stage 3	August 2014 (3a) June 2016 (3c)	Mandatory Waste Reduction	3a: No variance adjustments; observation based penalties 3b: Tier 3 budgets decreased by 50% 3c: Tier 3 budgets decreased by 100%; All water waste prohibitions remain in place
Stage 4	May 2015 (4a) September 2015 (4b) January 2015 (4c) April 2016 (4b)	Mandatory Outdoor Reduction	Watering scheduled limited (1-2 days/week) 4a: Tier 2 budgets decreased by 10% 4b: Tier 2 budgets decreased by up to 50% 4c: Tier 2 budgets decreased by up to 100%
Stage 5		Mandatory Indoor Reductions	Catastrophic stage (50% reduction in demand) 5a: Tier 1 budgets decreased by 10% 5b: Tier 1 budgets decreased by up to 30% 5c: Tier 1 budgets decreased by up to 50%

Throughout the State’s mandated water use reductions, the District actively engaged with the State Board members and staff, as well as other water agencies throughout the State on a regulatory approach that would better reflect each water agency’s actual water supplies and storage levels. In May 2016, the District self-certified that it had sufficient supplies to meet demands under a difficult stress test that simulated three additional years of severe drought conditions. As a result, the District’s required conservation standard was reduced to zero percent, although the District’s customers continued to achieve sustained conservation levels nearing a 20 percent cumulative reduction relative to 2013 water use. In June 2016, the District’s Board of Directors voted to return customers to a Stage 3c, restoring outdoor water budgets in their entirety.

In February 2017, the emergency regulation was extended another 270 days with a review scheduled for May 2017. Water suppliers are not required to update supply and demand information and the District continues to have a conservation requirement of zero percent. Despite the extension of the emergency regulations through May 2017, water supply conditions have improved significantly across California and on February 2017, the District moved out of the mandatory conservation stages of its WSCP to the Stage 2. The District requests a voluntary 20 percent reduction in potable water use compared to 2013 usage. District customers reduced potable water usage by a cumulative 18 percent, compared to 2013 potable water usage, for the period July 2015 to January 2017. The District estimates that the implementation of Stage 2 of the WSCP will not have a significant impact on most customers but will continue to send a strong message to eliminate water waste and enable it to maintain reduced potable water usage by up to 15 percent from 2013 usage.

FINANCIAL PLANNING

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

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenses for water, sewer, and recycled water facilities of approximately \$397.7 million for the period from 2017 through 2021. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates and charges, publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

RESERVE POLICY

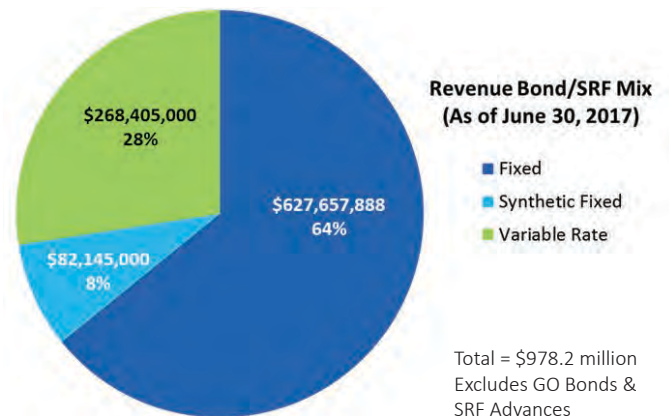
The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District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

ADMINISTRATIVE CODE AND INVESTMENT POLICY

In 2013, the Board adopted an Administrative Code, which incorporates various policies and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. The District invests its funds in instruments permitted by California Government Code Sections 53601, et seq., and in accordance with its Investment Policy. The investment objectives of the District are to first preserve capital, followed by maintaining liquidity, and finally, maximizing the rate of return without compromising the first two objectives.

DEBT ADMINISTRATION

The District actively manages its debt portfolio, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and has borrowed from State revolving fund (SRF) loans to fund its CIP. As of June 30, 2017, the District's total revenue bonds and SRF loans outstanding was \$978.2 million, of which 64 percent were fixed interest rate, 28 percent were variable interest rate, and 8 percent were synthetically fixed



through Swap agreements with Wells Fargo Bank, for an overall weighted average cost of funds of 2.03 percent.

During fiscal year 2017, the District issued a new series revenue bond along with six refunding revenue bonds to finance the construction of water and sewer capital improvements and to redeem three outstanding certificates of participation and five outstanding revenue bonds, respectively. Of these, \$125 million in revenue refunding bonds, Series 2016B was issued to advance refund the outstanding 2008H COPs, realizing \$29.7 million in net present value savings and releasing \$14.4 million in restricted reserve funds to finance capital projects. The \$17.5 million Series 2017C revenue refunding bonds refunded the 2007A fixed rate revenue refunding bonds, freeing up \$4 million in restricted Debt Service Reserve Funds to finance CIP projects and realizing \$2.7 million in net present value savings. The issuance of the new Series 2017D fixed rate revenue bond realized \$119 million in net proceeds to fund construction of water and sewer capital improvements. The other revenue refunding bonds issued refunded over \$350 million in variable rate debt, extending and diversifying the bank counterpart and remarketing agreements and shifting a portion of the variable rate portfolio from SIFMA index exposure to the LIBOR index. At the end of fiscal year 2017, the District shifted 98% of the overall debt portfolio to the subordinate lien, improving the overall credit worthiness of the subordinate lien and resulting in a working lien rating upgrade to AA+ by S&P Global Ratings.

The District's parity revenue bond debt has been assigned AAA, Aa2, and AA+ ratings and the subordinate refunding revenue bonds have been assigned ratings of AA+, Aa3, and AA+ from Fitch Ratings, Moody's Investors Service, Inc. and S&P Global Rating's Services, respectively. More information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the Basic Financial Statements.

MAJOR INITIATIVES

The District is driven by standards to provide safe, reliable, economical and environmentally friendly services. These standards and services include highly reliable water, recycled water, and waste water service; protection of public and environmental health; sound planning and appropriate investment; superior customer and community service; efficiency and fiscal responsibility; exemplary employer and effective communication and accountability.

HIGHLY RELIABLE WATER, RECYCLED WATER AND WASTEWATER SERVICE

To achieve safe, reliable and cost-effective collection and treatment of wastewater and beneficial use of biosolids and a water supply portfolio that achieves an optimum balance of water resources, the District identified and invests in the following initiatives:

Groundwater Program

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

Perris II Reverse Osmosis Treatment Facility

The Perris II Reverse Osmosis (RO) Treatment Facility Project is a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines and additional treatment trains at the RO treatment facilities. The Perris II Desalter will treat degraded groundwater from the West San Jacinto Basin so that the water can be used for potable purposes within the District's service area. The facility will be constructed adjacent to the two existing desalters, the Menifee and Perris I Desalter. The Perris II Desalter, which would initially produce 3.6 MGD, will be equipped to support expansion to a capacity of 5.4 MGD, meeting the potable water demands of up to 12,000 homes in the Perris and Menifee service areas. Of the total anticipated project cost of \$41 million, the District received \$22.5 million of Proposition 1 Groundwater grant funding from the State Board in August 2017. The District also secured a Local Resources Program (LRP) agreement from MWD which will provide a subsidy of \$305 per acre-foot up to 5,500 AF every year over 25 years. If the maximum amount of groundwater is recovered for beneficial use, MWD will subsidize \$41.9 million for the 137,500 AF. The LRP is an incentive program for MWD member agencies to produce water that would otherwise be supplied by MWD. The project, which started in December 2014, is anticipated to be completed on March 2021.

Accelerated Retrofit Program



In August 2015, the District Board approved and authorized \$2.2 million in funding for the Accelerated Retrofit Program, a conservation program developed by the District to convert facility-adjacent landscape irrigation sites from potable to recycled water. The program, which kicked-off in October 2015, is designed to maintain community benefit during periods of potable water restrictions due to current and future drought cycles. Six governmental and two private organizations participated in the program, including Valley Wide Recreation & Park District, Menifee Union School District, Hemet Unified School District, City of Hemet, City of San Jacinto, Mt. San Jacinto College,

The Oasis Community Homeowners Association and the Menifee Valley Medical Center. These participants were identified for the project based on a previous study partially funded by the State Board that served as a template for targeting parks, schools, streetscapes and other high volume landscape users adjacent to existing recycled water infrastructure that had yet to be retrofitted and connected to the system, sites that could be retrofitted without the need for extended pipelines, additional storage or booster capacity. Most of these organizations, although interested in recycled water, did not have the funds to invest. The District provided upfront financing for the retrofits, with support from MWD, and took the lead in the design and permitting process to expedite the retrofit and ensure compliance with State regulations. In October 2016, within one year of project kickoff, the program was completed with over 400 AF converted from potable to recycled water. The program also resulted in enhanced customer relationships, streamlined business processes and maintenance of recreational areas in the community. Of the \$2.2 million in authorized funding, only \$1.6 million of costs were incurred with \$400,000 in funding received from MWD.

Recycled Water Storage Pond Expansion and Optimization

In March 2016, construction started on the Recycled Water Storage Pond Expansion and Optimization project at Trumble Road and Case Road in Perris. This project will expand existing storage facilities at both the Trumble Road location (adjacent to the District's Main Office) and the Case Road location (at the Perris Valley Regional Water Reclamation Facility or PVRWRF). Construction at the Trumble Road site will add approximately 900 AF of storage, from 900 AF to 1,800 AF. The Case Road Pond Recycled Water Pump Station will have a total capacity of 4,000 gallons per minute. Additional improvements include upgraded piping and mechanical and electrical systems to optimize future operations. The project will expand winter recycled water storage to meet summer peak demands. Total project cost is \$14.1 million, of this, \$11.2 million is funded through the State Board State Revolving Fund (SRF) Loan at a fixed interest rate of one percent per annum. Of the \$11.2 million, contingent on the District's performance of its obligations under the terms of the financing agreement after construction completion, the State may grant the District a \$3.4 million Proposition 1 grant which will reduce the estimated amount of principal due to \$7.8 million. Construction is expected to be completed in October 2017.

Temecula Valley Regional Water Reclamation Facility



In 2016, the District's Temecula Valley Regional Water Reclamation Facility (TVRWRF), located in the central commercial area of Temecula, began a 5 MGD wastewater treatment capacity expansion project, bringing the total capacity to 23 MGD once completed in 2020. This increased capacity is needed to accommodate growth in the region. The facility's expansion will include new primary, secondary, tertiary, solids handling and effluent pumping facilities and storage.

In July 2017, the District received \$95.3 million in funding from the State Board to fund the District's \$120 million Recycled Water Supply Optimization project. The funding includes a \$15 million Proposition 1 grant and an \$80.3 million SRF loan. The Recycled Water Optimization Project will expand the District's recycled water portfolio and includes the TVRWRF.

SOUND PLANNING AND APPROPRIATE INVESTMENT

To deliver the highest quality products and services in a cost-effective manner by leveraging workforce, technology, and business resources and implementing industry leading processes and practices.

Santa Ana River Conservation and Conjunctive Use Program

The Santa Ana River Conservation and Conjunctive Use Program (SARCCUP) is a multi-agency watershed wide program that will bank imported water to enhance water supply reliability and increase available dry year supplies in the Santa Ana River Watershed. The program will also integrate water conservation measures, habitat enhancements and recreational use. It will develop dry year yield by banking wet year water with 180,000 AF capacity over a ten-year period. The District will implement the San Jacinto Basin component of the program by storing 19,500+ AF of wet year water per ten-year period. The District will install a one-mile educational hiking

trail and forty acres of open space in the form of a recharge basin in the Santa Ana River Watershed. The five participating agencies include the District, Inland Empire Utilities Agency (IEUA), Orange County Water District (OCWD), San Bernardino Valley Municipal Water District (SBVMWD), and Western Municipal Water District (WMWD). Total project cost to the District is \$22.9 million with \$12.7 million from Proposition 84 Integrated Regional Water Management Program (IRWMP) grant funding from the Santa Ana Watershed Project Authority (SAWPA). The project is estimated to be completed in August 2022.

SUPERIOR CUSTOMER AND COMMUNITY SERVICE

The District is committed to consistently meet or exceed expectations in all facets of its service through customer awareness, service, and customer service technology.

Automated Metering Infrastructure

The District's Automated Meter Infrastructure (AMI) project is a multi-year project authorized by the District Board in December 2014. The goal of the project is to install automated (smart) meters to improve customer service options, save on labor costs, and minimize water loss. In 2017, the District started the three-year accelerated AMI Expansion project which includes the installation of 44,000 meters during the year. To-date, approximately 76,000 highly efficient meters have been installed, nearly half of the planned 151,299 meters to be installed by the end of the project in June 2019. AMI technology provides a remote data link between the meters and the District for real time monitoring and allows hands free meter reading resulting in more efficient water reading with fewer District vehicle trips and less employee hours. The smart meters installed, used in conjunction with the District's existing AMI Tower Gateway and Meter Data Management System, will provide daily and up-to-date customer water usage information and analysis that will enable customers to track their water budgets, leading to conservation. The District will also be able to utilize AMI data for leak detection, providing early detection and reducing water loss. Continuous and early leak detection is also a component of water conservation. Projected water savings from the project is 1,945 AF each year with an associated energy savings of 47.1 million kilowatt hours (kWh) per year and water savings of 3,649 AF ongoing per year achieved after five years with an associated 88.4 kWh per year. The expansion project is anticipated to take 36 months to complete. The \$14 million AMI program is funded in part by grants from the California Department of Water Resources for programs that increase water conservation and energy savings and reduce carbon emissions.

County Water Company Consolidation

In April 2017, the District began providing water service to customers previously served by the County Water Company of Riverside in the City of Menifee. In 2013, the District, along with Elsinore Valley Municipal Water District (EVMWD), was engaged by the State and the County of Riverside to provide water service and assume ownership of the County Water Company, a private, for-profit company located in the County of Riverside. The County Water Company served less than 150 residences over a 1,280-acre service area with a single well source that was often unreliable and out of service. The water delivered had nitrate levels well above the Federal and State regulatory agencies drinking standards. In order to provide safe and reliable water service and consolidate the County Water Company into the District and EVMWD (eastern portion to the District and western portion to EVMWD), a new water system in the area was constructed with the County of Riverside acting as intermediary.

The project also included annexation into MWD. Total cost to the District was \$3.4 million with funding of \$2.9 million from the California Department of Public Health (CDPH).

EFFICIENCY AND FISCAL RESPONSIBILITY

To District continues to focus its efforts in areas that will ensure financial stability and demonstrate responsible stewardship of public funds.

Cost of Service Study

In March 2017, the District Board adopted the Cost of Service Study and Methodology. The Cost of Service Methodology covered multiple rate topics including the source of supply cost allocation and tier structure realignment, household water allocations aligned to State standards, wastewater block factors, fixed revenue recovery increase, and meter ratios aligned to the American Water Works Association (AWWA) standards. This recommendation is a result a two-year Cost of Service Study project which began in July 2015 when the District engaged the services of an outside consultant to assist in the preparation of a cost of service analysis and rate design for the water, sewer, and recycled water systems. During this period leading up to March 2017, several workshops were held with the District Board to receive feedback for future rate design and to review several aspects of the District's rate structure including water budget allocations by tier, meter size and ratios; recycled water rates; phasing of certain improvement area rates; and non-residential customer water budgets. In September 2017, the District Board approved and authorized the delivery of the Proposition 218 Notices for the proposed water, sewer and recycled water rates, setting the time and place for a public hearing on November 15, 2017 to consider changes to the rate structures.

Other Post-Employment Benefits

The District established a funding policy to fund its retiree health program through the California Employers' Retiree Benefit Trust (CERBT) and started funding in fiscal year 2013 with a goal to achieve full funding by fiscal year 2034. The District began funding future costs in July 2012 and July 2013 with initial \$2.5 million and \$2.7 million deposits to CERBT. During FY 2013-2014, the District implemented a new tier of Other Post-Employment Benefits (OPEB) for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles. Commencing in fiscal year 2015, the District made its full Actuarially Determined Contribution (ARC) and intends to continue to do so until its OPEB obligations are fully funded. In fiscal years 2016 and 2017, the District contributed \$1.2 million and \$7.5 million in excess of the ARC. This was substantially sooner than anticipated when the OPEB funding policy principles were adopted by the District Board.

ACCOUNTING SYSTEMS

The Finance department is responsible for providing the financial services for the District, including financial accounting and reporting, payroll and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an

enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching the revenues against the costs of providing the services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.

INTERNAL CONTROLS

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

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the thirteenth consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Note: Statistical information provided in this letter include the following sources: Eastern Municipal Water District; United States Department of Labor Bureau of Labor Statistics; Dr. John Husing's Quarterly Economic Report; County of Riverside Assessor Annual Report; Economic Forecast and Industry Outlook, Institute For Applied Economics, Los Angeles County Economic Development Corporation; and the California Department of Transportation.

Respectfully submitted,



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



Deborah S. Cherney, CPA
Deputy General Manager



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

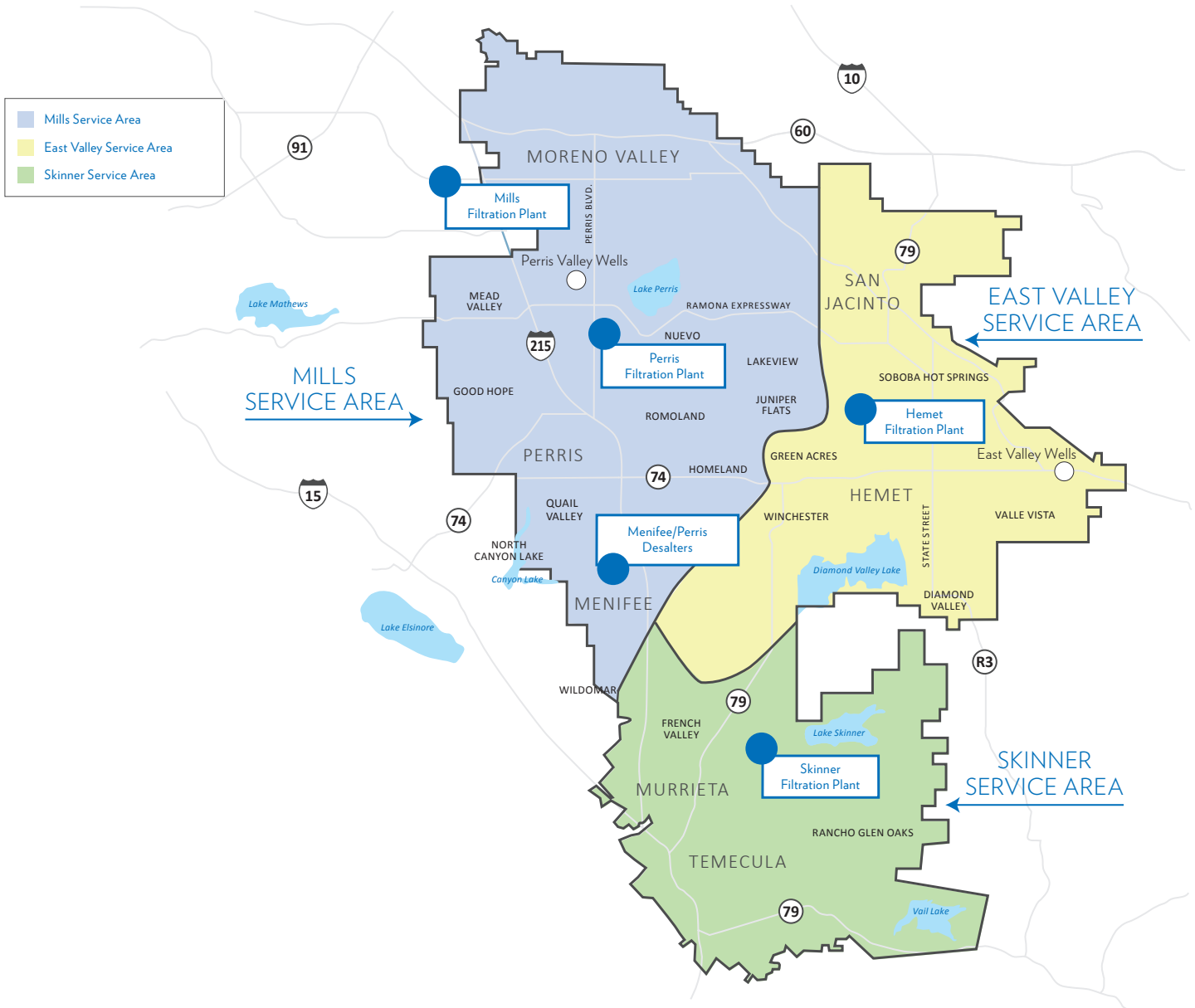
**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

SERVICE AREA MAP AND INCORPORATED CITIES



**EASTERN MUNICIPAL WATER DISTRICT
LIST OF ELECTED & APPOINTED OFFICIALS
JUNE 30, 2017**

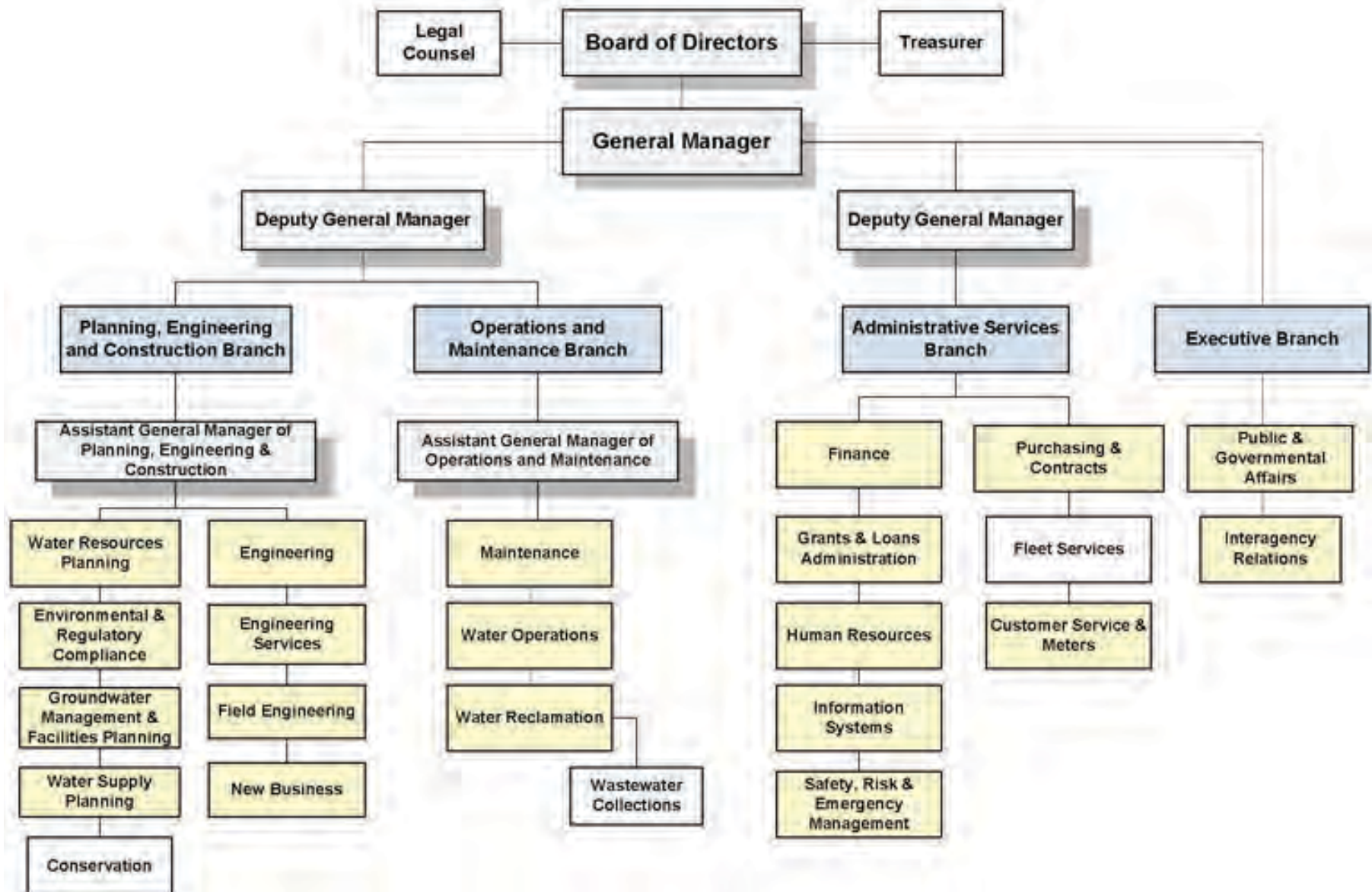
BOARD OF DIRECTORS

Position	Name	Elected	Current Term
President	David J. Slawson	1/1995	2015-2019
Vice President	Ronald W. Sullivan	1/2003	2017-2021
Director/Treasurer	Joseph J. Kuebler, CPA	4/2006	2015-2019
Director	Philip E. Paule	1/2007	2015-2019
Director	Randy A. Record	1/2001	2017-2021

EXECUTIVE MANAGEMENT

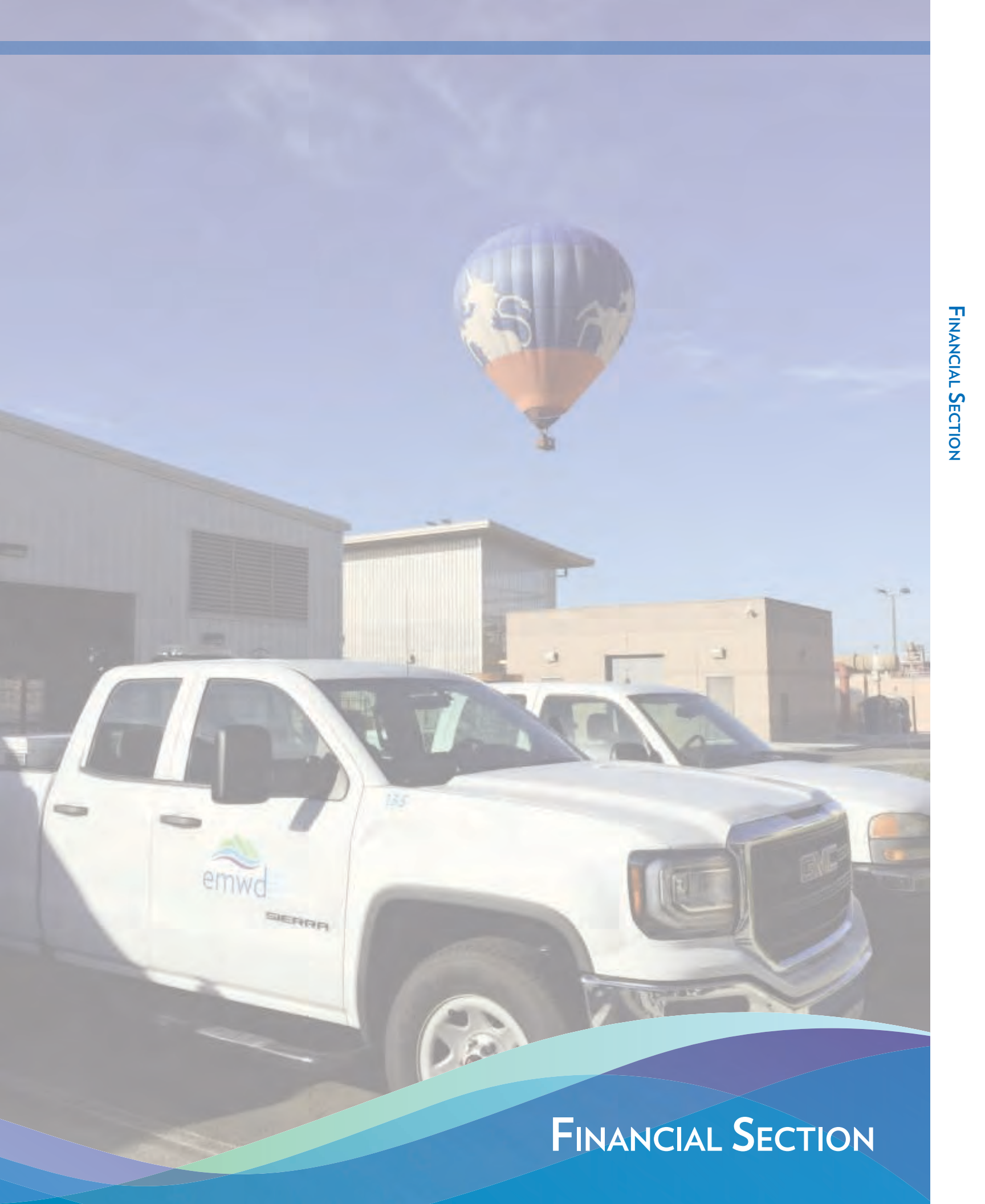
Position	Name
General Manager	Paul D. Jones II, P.E.
Deputy General Manager	Deborah S. Cherney, CPA
Deputy General Manager	Nicolas Kanetis, P.E.
Assistant General Manager	Jeff D. Wall, P.E.
Assistant General Manager	Joe Mouawad, P.E.

EASTERN MUNICIPAL WATER DISTRICT DISTRICT ORGANIZATIONAL CHART



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Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

We have previously audited the District's for the 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Schedule of Pension Plan Contributions, and the Schedule of OPEB Funding Progress* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Lane" followed by a stylized flourish.

Irvine California
November 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

On behalf of the Eastern Municipal Water District (the "District"), we are pleased to offer the following narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage all readers of the District's financial statements to consider the financial information presented in this section in conjunction with the accompanying financial statements, notes, analyses, and additional information furnished in our letter of transmittal at the opening of this report.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2017 by \$1,532.5 million (net position). The District's net position, which increased \$12.0 million or 0.8 percent from the prior fiscal year, includes net investment in capital assets, \$1,338.3 million, restricted for debt service, \$71.2 million, restricted for construction, \$60.6 million and unrestricted, \$62.4 million.
- Total assets of the District are \$2,873.8 million, an increase of \$122.5 million or 4.5 percent from fiscal year 2016. Cash and investments increased \$119.4 million mostly due to the issuance of Series 2017D revenue bonds to fund water and sewer infrastructure. Increases in utility accounts receivable, \$2.5 million, materials and supply inventory, \$1.0 million, water inventory, \$3.1 million and grants receivable, \$3.6 million and notes receivable, \$1.9 million were offset by a decrease of \$8.7 million in net capital assets due to the write-off of obsolete information systems equipment.
- Total liabilities of the District are \$1,384.0 million, an increase of \$134.8 million from fiscal year 2016. Total debt, \$1,106.9 million, increased by \$110.2 million mainly due to the issuance of the \$102.5 million, Series 2017D revenue bonds (additional information on the District's long-term liabilities, including debt, can be found in Note 4 of the Basic Financial Statements). Increases in accounts payable, \$11.7 million and net pension liability, \$20.9 million, were partially offset by decreases in the fair value of swap contracts, \$5.8 million, compensated absences, \$1.6 million and net other post-employment benefits, \$7.9 million. In fiscal year 2017, the District funded \$7.5 million in excess of its annual required contribution for other post-employment benefits (OPEB) to the California Employers Retirement Benefit Trust, to reduce its unfunded OPEB liability (additional information can be found in Note 8 of the Basic Financial Statements).
- Total revenues of the District are \$327.4 million, an increase of \$9.4 million or 2.9 percent from fiscal year 2016. Operating revenues were \$14.9 million or 7.2 percent higher due to increased water customer demands and rates. Non-operating revenues were \$5.5 million or 4.9 percent lower due to a decrease in sewer connection fees and late fees.
- Total expenses are \$336.8 million, an increase of \$23.9 million or 7.7 percent from fiscal year 2016. Operating expenses were \$15.1 million or 5.5 percent higher due to increases in purchased water cost and general and administrative expenses (additional information can be found in the Overview of the Financial Statements, Financial Analysis Section of the Management Discussion and Analysis).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL HIGHLIGHTS (CONTINUED)

- Capital contributions are \$21.4 million, a decrease of \$16.2 million or 43.2 percent from the prior year. Increases in capital grants and other capital contributions revenue of \$6.0 million were offset by a decrease of \$22.3 million in developer contributions.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows and notes to the basic financial statements. This report also includes other supplementary information in addition to the basic financial statements.

- *Statement of Net Position:* This statement presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- *Statement of Revenue, Expenses and Changes in Net Position:* This statement presents information on the District's current fiscal year's revenue and expense. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.
- *Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments segregated among operating, capital and related financing, and investing activities.
- *Notes to the Basic Financial Statements:* These notes provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's total activity.

Table 1 - Net Position

STATEMENT OF NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2017

	2017	2016	Increase (Decrease)	
			Amount	% Change
ASSETS				
Current assets	\$ 299,206,465	\$ 233,954,903	\$ 65,251,562	27.9%
Restricted assets	344,409,976	278,497,660	65,912,316	23.7%
Net capital assets	<u>2,230,149,271</u>	<u>2,238,812,592</u>	<u>(8,663,321)</u>	<u>-0.4%</u>
Total Assets	\$ 2,873,765,712	\$ 2,751,265,155	\$ 122,500,557	4.5%
Total Deferred Outflows of Resources	\$ 47,611,651	\$ 26,496,525	\$ 21,115,126	79.7%
LIABILITIES				
Current liabilities	\$ 91,415,435	\$ 78,319,621	\$ 13,095,814	16.7%
Other liabilities	185,684,224	193,009,941	(7,325,717)	-3.8%
Long-term debt outstanding	<u>1,106,905,634</u>	<u>977,834,435</u>	<u>129,071,199</u>	<u>13.2%</u>
Total Liabilities	\$ 1,384,005,293	\$ 1,249,163,997	\$ 134,841,296	10.8%
Total Deferred Inflows of Resources	\$ 4,840,427	\$ 8,082,538	\$ (3,242,111)	-40.1%
NET POSITION				
Net investment in capital assets	\$ 1,338,331,638	\$ 1,403,875,420	\$ (65,543,782)	-4.7%
Restricted	131,839,931	118,614,586	13,225,345	11.1%
Unrestricted	<u>62,360,074</u>	<u>(1,974,861)</u>	<u>64,334,935</u>	<u>-3257.7%</u>
Total Net Position	\$ 1,532,531,643	\$ 1,520,515,145	\$ 12,016,498	0.8%
Ratio of Liabilities and Deferred Inflows to Assets and Deferred Outflows of Resources				
	<u>48%</u>	<u>45%</u>		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Comparing net position over time may serve as a useful indicator of a district's financial position. As shown on Table 1, the District's statement of net position includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,532.5 million (net position) at the close of fiscal year 2017 representing an increase of \$12 million or 0.8 percent from fiscal year 2016.

The ratio of liabilities and deferred inflows of resources to assets and deferred outflows of resources increased 3 percent in fiscal year 2017. This ratio indicates the degree to which the District's assets are financed through borrowing and other obligations.

Total assets increased by \$122.5 million or 4.5 percent primarily due to a \$119.4 million increase in cash and investments. This increase in cash and investments includes \$94 million in unspent proceeds from the Series 2017D revenue bonds issued in May 2017. These bonds were issued to finance the acquisition and construction of water and sewer capital improvements. Other significant increases in the District's assets include a \$3.1 million increase in water inventory, \$3.6 million in grants receivable and \$1.9 million in notes receivable related to the Temecula Wine Country special benefit area capital outlays.

Total deferred outflows of resources increased by \$21.1 million or 79.7 percent in fiscal year 2017. Of this increase, \$14.5 million reflects the difference in projected and actual earnings on pension plan investments and \$7.2 million represents an increase in deferred charges on debt issuance and refundings (additional information can be found in Note 4 of the Basic Financial Statements and in the narrative below).

Total liabilities increased by \$134.8 million or 10.8 percent reflecting increases of \$110.2 million in long-term debt, \$11.8 million in accounts payable and \$20.9 million in net pension liability offset by decreases in net other post-employment benefits, \$7.5 million, fair value of swap contracts, \$5.8 million and compensated absences, \$1.6 million. The \$110.2 million increase in long-term debt is due to the issuance of six refunding revenue bonds (Series 2016B, 2017A, 2017B, 2017C, 2017E and 2017F) and a new revenue bond (Series 2017D). The net proceeds from these refunding bonds were used to redeem three outstanding certificates of participation and five refunding revenue bonds which resulted in the migration of 98 percent of debt to the Working Lien resulting in S&P upgrading the Working Lien rating to AA+, realized debt service savings, freed up \$4.4 million in restricted debt service reserve funds to use for financing capital projects, diversification of variable rate index bank counterparty exposure and a balanced mix of credit exposure. The 2017D revenue bond was issued to finance the construction of water and sewer capital improvements. The \$11.8 million increase in Accounts Payable relate to payments due to capital projects vendors and the District's wholesale water provider, Metropolitan Water District. The \$20.9 million increase in net pension liability represents the increase of total pension liability over the decrease in pension plan fiduciary net position at the end of fiscal year 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 2 - Changes In Net Position

CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016	Increase (Decrease)	
			Amount	% Change
REVENUES				
Operating revenues	\$ 221,199,222	\$ 206,291,091	\$ 14,908,131	7.2%
Non-operating revenues	<u>106,216,467</u>	<u>111,747,507</u>	<u>(5,531,040)</u>	<u>-4.9%</u>
Total Revenues	<u>327,415,689</u>	<u>318,038,598</u>	<u>9,377,091</u>	<u>2.9%</u>
EXPENSES				
Operating expenses	291,883,640	276,768,470	15,115,170	5.5%
Non-operating expenses	<u>44,909,099</u>	<u>36,071,890</u>	<u>8,837,209</u>	<u>24.5%</u>
Total Expenses	<u>336,792,739</u>	<u>312,840,360</u>	<u>23,952,379</u>	<u>7.7%</u>
Increase (Decrease) in Net Position before Transfers	(9,377,050)	5,198,238	(14,575,288)	-280.4%
Capital contributions	<u>21,393,548</u>	<u>37,646,039</u>	<u>(16,252,491)</u>	<u>-43.2%</u>
Change in Net Position	12,016,498	42,844,277	(30,827,779)	-72.0%
Net Position - Beginning of Year	<u>1,520,515,145</u>	<u>1,477,670,868</u>	<u>42,844,277</u>	<u>2.9%</u>
Net Position - End of Year	<u>\$ 1,532,531,643</u>	<u>\$ 1,520,515,145</u>	<u>\$ 12,016,498</u>	<u>0.8%</u>

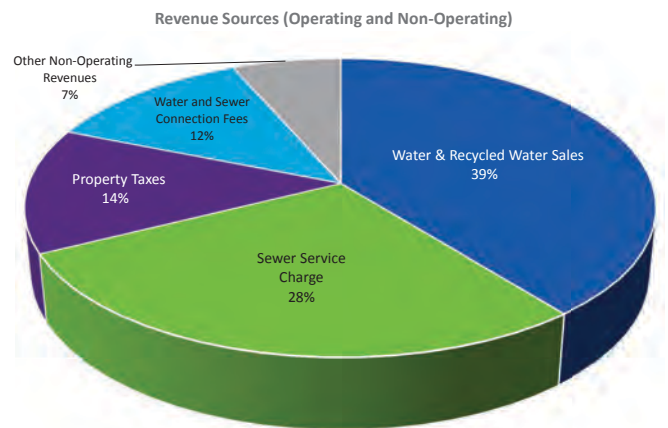
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Financial Performance of the District

The District's statement of revenue, expenses, and changes in net position reports the results of its operations for the fiscal year ended June 30, 2017. A summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016 is reported on Table 2 of the previous page.

Revenues

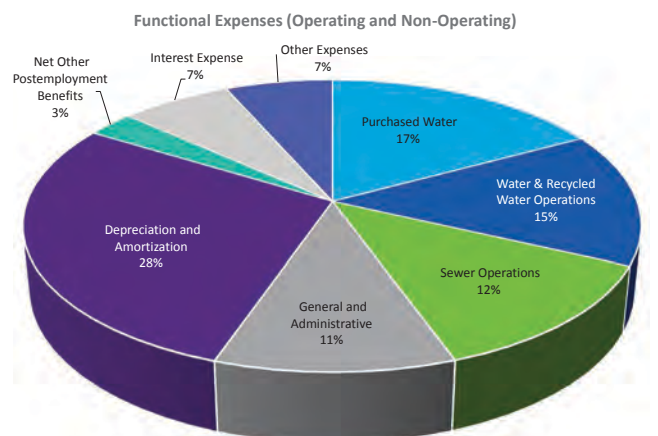
The District's operating revenues, which include water sales, sewer service charge and recycled water sales, increased \$14.9 million or 7.2 percent in fiscal year 2017. This increase reflects higher water sales of \$8.4 million, higher sewer service charges of \$5.5 million, and higher recycled water revenue of \$1.1 million. The \$8.4 million increase in water sales revenue reflect an increase of 6,166 in acre feet sales volumes and an increase in water rates effective January 1, 2017. Sales volumes were higher due to increased customer demand and higher temperatures. The District's water contingency plan was lowered, from Stage 4C to Stage 2, in February 2017 and the State drought emergency ended in April 2017. Sewer revenue increased by \$5.5 million due to an increase in sewer rates effective July 1, 2016 and an increase in new sewer connections from fiscal year 2016.



Non-operating revenues, which include property taxes, water and sewer connection fees and other revenues were \$5.5 million or 4.9 percent lower in fiscal year 2017 as a result of a \$5.2 million decrease in water and sewer connection fees due to a 17 percent reduction in sewer connections.

Expenses

The District's operating expenses include the cost of purchased water, water service operating cost, sewer service operating cost, recycled water operating cost, general and administrative cost, depreciation cost and other employment benefit cost. Total operating expenses were \$15.1 million or 5.5 percent higher in fiscal year 2017 due to increases of \$7.2 million in purchased water cost and \$6.6 million in general and administrative cost. Purchased water cost, which is 19.7 percent of total operating expenses and 47.6 percent of total water sales, was higher due to increased customer usage and increased wholesale demand. The increase in general and administrative costs include a \$4.6 million increase in unallocated pension expense.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Non-operating expenses, which include the loss on disposal of capital assets, interest expense on debt obligations and other expenses, were \$8.8 million or 24.5 percent higher in fiscal year 2017. This change reflects increases of \$5.2 million in research and development costs related to various projects and initiatives and \$3.8 million decrease in fair value of investments.

Capital Contributions

Capital contributions were \$16.2 million or 43.2 percent lower in fiscal year 2017 due to a decrease of \$22.3 million or 64.1 percent in developer contributions.

Capital Assets

The District reported a decrease of \$8.7 million in net capital assets in fiscal year 2017. A comparison of changes in capital assets is provided in Table 3 below.

Table 3 - Capital Assets

**CAPITAL ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016	Increase/(Decrease)	
			Amount	% Change
Land	\$ 58,311,851	\$ 56,160,972	\$ 2,150,879	3.8%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	30,074,350	30,074,350	-	0.0%
Water plant, lines and equipment	1,167,341,886	1,148,804,466	18,537,420	1.6%
Sewer plant, lines and equipment	1,892,138,078	1,872,527,632	19,610,446	1.0%
Equipment and general facilities	119,494,824	134,118,749	(14,623,925)	-10.9%
Construction in progress	131,631,533	93,124,927	38,506,606	41.3%
Total capital assets	3,400,743,422	3,336,561,996	64,181,426	1.9%
Less accumulated depreciation	(1,170,594,151)	(1,097,749,404)	(72,844,747)	6.6%
Net capital assets	\$ 2,230,149,271	\$ 2,238,812,592	\$ (8,663,321)	-0.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total increase in capital assets of \$64.2 million include increases in land, water and sewer plant, lines and equipment and construction in progress of \$78.7 million offset by a \$14.6 million decrease in equipment and general facilities. The \$14.6 million decrease in equipment is primarily due to the write-off of obsolete information system assets also resulting in a decrease in net capital assets of \$8.7 million.

Significant additions resulted from the completion and capitalization of \$39.2 million in construction in progress. Other additions to capital assets include \$12.5 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions related to development in the area.

The three largest District projects that were capitalized in fiscal year 2017 include \$4.2 million of the Automated Metering Infrastructure (AMI) Meter Replacement, \$3.8 million of the Loma Ventosa Lift Station and \$3.6 million of the Sun City Lift Station Odor Control Improvements.

The AMI Meter Replacement project will be replacing approximately 77,000 meters, registers, and MXU's throughout all service areas of the District. The benefits of the AMI deployment include improvements such as leak detection, analytics for conservation, as well as labor, fuel and equipment savings. Additionally, implementation of AMI provides a platform for planned customer service enhancements such as the implementation of a usage and payment portal with customer based self-service features, analytics and capabilities. This project was partially complete as of June 30, 2017, with final work to be completed by June 2019.

The Loma Ventosa Lift Station project includes the design and construction of a sewer lift station in the Wine Country, which is located within the District's Temecula Valley service area, to the east of Butterfield Stage Road in an unincorporated area of Riverside County. This project will help to connect new services to the District's sewer collection system. This project was substantially complete as of February 28, 2017, with final completion June 30, 2017.

The Sun City Lift Station Odor Control Improvements project includes the design and construction of a foul air conveyance and treatment system at the Sun City Lift Station. The foul air conveyance system includes a bio-trickling filter (BTF) and activated carbon treatment vessel. The BTF is comprised of a vessel of approximately 12-feet in diameter and 28-feet in height. The activated carbon vessel has a diameter of approximately 12-feet and a height of 10-feet. This project will significantly improve the capability and capacity to capture and control foul air emanating from the lift station wet well. This project was substantially complete as of May 25, 2017, with final work to be completed July 2017.

The District had \$59.0 million in construction contract commitments as of June 30, 2017 (additional information can be found in Note 10 of the Basic Financial Statements).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the year, additions to construction in progress totaled approximately \$88.1 million. Some of the major projects currently underway and where expenditures in fiscal year 2017 exceeded \$2.0 million include:

	<u>Millions</u>
• Temecula Valley RWRF 23 MGD Expansion	\$29.5
• Fifty-seven water and sewer projects between \$100,000- \$500,000	10.9
• Remaining water and sewer projects with expenses less than \$100,000	11.5
• Eight water and sewer projects between \$1,000,000- \$2,000,000	10.0
• Ten water and sewer projects between \$500,000- \$1,000,000	6.5
• Automated Metering Infrastructure (AMI) Meter Replacement	4.2
• North Trumble Road and Perris Valley RWRF Case Road Recycled Storage Ponds, No. 1	4.2
• Paradise Meadows 5.0 MG Tank- Rebid	3.5
• Sun City Lift Station Odor Control Improvements	3.0
• Redlands and Hemlock Booster Pumping Station Replacement	2.7
• Redlands and Oleander Pipeline Replacement	<u>2.1</u>
	<u>\$88.1</u>

Long-Term Liabilities

Long-term liabilities consist of debt and other liabilities. Long-term debt includes advances for construction, notes and assessments, revenue bonds, general obligation (GO) bonds and unamortized deferred amounts for premiums/discounts relating to debt issuances. Other long-term liabilities include state revolving fund (SRF) loans, construction advances, advances from developers, other accrued expenses, compensated absences, net other post-employment benefits obligation and the fair value of swap contracts.

The District had a total of \$1,292.5 million of outstanding debt and other noncurrent liabilities at June 30, 2017, a net increase of \$121.7 million or 10.4 percent from the prior year. Total debt increased \$110.2 million to \$1,106.9 million due to the issuance of the 2017D Revenue Bonds (additional information can be found in Note 4 of the Basic Financial Statements). Other long-term liabilities increased \$15.3 million mainly due to the \$20.9 million increase in net pension liability. Net pension liability, \$117.2 million, reflects the difference between total pension liability of \$386.3 million and the plan fiduciary net position at the end of fiscal year 2017, \$269.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The District's parity Revenue Bond debt has been assigned an AAA, Aa2 and AA+ rating and the subordinate Refunding Revenue Bonds have been assigned ratings of AA+, Aa3, and AA+ from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding any of the information provided in this report or need additional financial information, please contact the District's Finance Department at 2270 Trumble Road, P.O. Box 8300, Perris, CA 92572-8300. General information relating to the District can be found on its website <http://www.emwd.org>.

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BASIC FINANCIAL STATEMENTS

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EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Assets:		
Current assets:		
Cash and investments	\$ 231,267,863	\$ 175,841,205
Utility accounts receivable, net of allowance	28,997,998	26,457,291
Property taxes receivable	12,316,870	12,161,501
Accrued interest receivable	1,460,599	996,089
Other receivables	5,591,835	5,980,706
Prepaid expenses	3,777,535	4,446,067
Materials and supplies inventory	4,678,802	3,631,231
Water inventory	5,663,910	2,602,072
Grants receivable	5,451,053	1,838,741
Total current assets	299,206,465	233,954,903
Noncurrent assets:		
Restricted assets:		
Debt service covenants cash and investments	71,575,859	99,120,043
Property taxes receivable	1,557,253	1,530,827
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	256,083,590	164,582,603
Notes receivable	2,194,496	265,409
Total restricted assets	344,409,976	278,497,660
Capital assets:		
Land	58,311,851	56,160,972
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	3,089,554,314	3,051,406,448
Equipment and general facilities	119,494,824	134,118,749
Construction in progress	131,631,533	93,124,927
Total capital assets	3,400,743,422	3,336,561,996
Less accumulated depreciation	(1,170,594,151)	(1,097,749,404)
Total net capital assets	2,230,149,271	2,238,812,592
Total noncurrent assets	2,574,559,247	2,517,310,252
Total assets	2,873,765,712	2,751,265,155
Deferred outflows of resources:		
Accumulated decrease in fair value of swap contracts	-	1,471,875
Deferred outflows- pension contributions	9,699,290	8,782,080
Deferred outflows- actuarial	14,456,901	-
Deferred charges on debt refundings	23,455,460	16,242,570
Total deferred outflow of resources	47,611,651	26,496,525

The accompanying notes are an integral part of these financial statements.

**EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017**

(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Liabilities:		
Current liabilities:		
Accounts payable	\$ 35,905,829	\$ 24,118,347
Accrued salaries and benefits	2,120,487	2,329,084
Customer deposits	9,321,715	8,852,801
Compensated absences	7,634,381	8,039,211
Accrued interest payable	10,911,236	9,451,267
Other payables	2,774,956	2,763,161
Advances for construction, notes and assessments	2,965,225	2,937,873
Revenue bonds	15,452,009	14,764,632
Certificates of participation	-	140,399
General obligation bonds	1,060,393	1,015,393
Advances from developers	851,627	1,831,406
Capital lease payable	11,764	10,970
Unearned revenue	455,814	175,800
Other accrued expenses payable	1,949,999	1,889,277
Total Current Liabilities	91,415,435	78,319,621
Noncurrent liabilities:		
Compensated absences	5,168,182	6,393,301
Advances for construction, notes and assessments	82,262,663	87,849,361
Revenue bonds	972,307,446	648,817,910
Certificates of participation	-	207,248,872
General obligation bonds	32,845,116	33,905,509
State revolving fund construction advances	4,790,073	1,360,338
Advances from developers	18,765,667	16,087,549
Capital lease payable	1,018	12,782
Other accrued expenses payable	5,603,228	5,645,832
Net other postemployment benefits obligation	43,807,182	51,636,947
Net pension liability	117,160,370	96,207,666
Fair value of swap contracts	9,878,913	15,678,309
Total Noncurrent liabilities	1,292,589,858	1,170,844,376
Total liabilities	1,384,005,293	1,249,163,997
Deferred inflows of resources:		
Accumulated decrease in fair value of swap contracts	442,643	-
Deferred inflows- actuarial	4,397,784	8,082,538
Total deferred inflows of resources	4,840,427	8,082,538
Net position:		
Net investment in capital assets	1,338,331,638	1,403,875,420
Restricted for debt service covenants	71,207,358	80,348,698
Restricted for construction	60,632,573	38,265,888
Unrestricted	62,360,074	(1,974,861)
Total Net Position	\$ 1,532,531,643	\$ 1,520,515,145

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Operating revenues:		
Water sales- domestic	\$ 115,796,435	\$ 107,319,708
Water sales- irrigation	5,074,502	5,137,718
Sewer service charge	92,536,116	87,184,856
Recycled water sales	7,792,169	6,648,809
Total operating revenues	221,199,222	206,291,091
Operating expenses:		
Purchased water	57,512,425	50,334,462
Water operations	44,089,564	43,582,087
Sewer operations	42,232,322	42,095,206
Recycled water operations	6,064,944	6,287,916
General and administrative	36,283,686	29,687,364
Depreciation and amortization	95,968,255	95,302,858
Net other postemployment benefits	9,732,444	9,478,577
Total operating expenses	291,883,640	276,768,470
Operating income (loss)	(70,684,418)	(70,477,379)
Nonoperating revenues (expenses):		
Property taxes- general levy	33,971,127	32,271,305
Property taxes- general bond levy	4,606,897	4,605,485
Availability (standby) assessments	5,831,357	5,784,242
Water and sewer connection fees	40,565,197	45,715,784
Interest- operations and restricted funds	4,733,897	3,405,039
Net increase (decrease) in fair value of investments	(2,151,319)	1,607,359
Interest- general obligation bond funds	68,172	44,559
Other revenues	16,439,820	18,313,734
Gain (loss) on disposal of capital assets	(2,825,645)	(5,675,444)
Interest- certificates of participation and revenue bonds	(20,071,329)	(17,416,679)
Interest- general obligation bonds	(1,705,906)	(1,750,298)
Interest- other	(1,046,127)	(1,383,723)
General obligation fund service fees	(33,351)	(47,422)
Research and development costs	(8,815,131)	(3,572,614)
Other expenses	(8,260,291)	(6,225,710)
Total nonoperating revenues (expenses)	61,307,368	75,675,617
Income (loss) before contributions	(9,377,050)	5,198,238
Capital contributions:		
Developer contributions	12,498,450	34,802,124
Capital grants	6,164,479	2,823,624
Other capital contributions	2,730,619	20,291
Total capital contributions	21,393,548	37,646,039
Change in net position	12,016,498	42,844,277
Total net position- Beginning of year	1,520,515,145	1,477,670,868
Total net position- End of Year	\$ 1,532,531,643	\$ 1,520,515,145

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Cash flows from operating activities		
Receipts from customers	\$ 221,494,261	\$ 205,000,210
Receipts from availability (standby) assessments	5,770,496	5,846,619
Other receipts	16,719,835	18,313,734
Payments for water	(60,745,250)	(50,428,849)
Payments to employee for services	(95,735,999)	(86,519,225)
Payments to suppliers for goods and services	(44,784,457)	(49,322,014)
Payments for energy and utilities	(12,299,485)	(13,793,022)
Net cash (used for) provided by operating activities	30,419,401	29,097,453
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	33,876,619	32,120,225
Net cash (used for) provided by noncapital financing activities	33,876,619	32,120,225
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(76,149,064)	(81,757,041)
Proceeds from sale of capital assets	117,897	384,123
Proceeds from long-term debt issuance	592,889,786	250,119,230
Proceeds from SRF construction advances	3,429,735	6,613,954
Repayment of notes, bonds and certificates of participations	(492,668,427)	(280,450,169)
Interest paid	(24,114,900)	(21,715,206)
Proceeds from property taxes, GO bond levy	4,580,471	4,358,792
Proceeds from water and sewer connection fees	40,565,197	45,715,784
Proceeds from developer advances	9,414,453	5,911,966
Repayments of developer advances	(7,716,114)	(6,453,147)
Proceeds from capital grants	2,552,167	1,712,200
Net cash (used for) capital and related financing activities	52,901,201	(75,559,514)
Cash flows from investing activities		
Purchases of investments	(131,467,098)	(87,103,948)
Proceeds from sales and maturities of investments	64,921,852	132,069,303
Proceeds from earnings on investments	4,337,559	3,455,561
Net cash provided by investing activities	(62,207,687)	48,420,916
Total (decrease) increase in cash and cash equivalents	54,989,534	34,079,081
Cash and cash equivalents at beginning of year	258,574,858	224,495,777
Cash and cash equivalents at end of year	\$ 313,564,392	\$ 258,574,858

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(with prior year data for comparison purposes only)

	JUNE 30	
	2017	2016
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	\$ (70,684,418)	\$ (70,477,379)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	95,968,255	95,302,858
Other revenues	8,206,388	14,319,943
(Increase) decrease in utility accounts receivable	(2,540,707)	(3,110,972)
(Increase) decrease in other receivables	328,010	(926,196)
(Increase) decrease in prepaid expenses	668,532	(1,258,168)
(Increase) decrease in materials and supplies inventory	(1,047,571)	(366,750)
(Increase) decrease in water inventory	(3,061,838)	(69,251)
(Increase) decrease in notes receivable	(1,929,087)	(84,492)
(Increase) decrease in accounts payable	11,787,482	(1,332,701)
(Increase) decrease in accrued expenses	(178,684)	(1,749,010)
(Increase) decrease in customer deposits	468,914	841,191
(Increase) decrease in settlement payable	-	-
(Increase) decrease in compensated absences	(1,629,949)	421,186
(Increase) decrease in net other postemployment benefits obligation	(7,829,765)	(290,558)
(Increase) decrease in net pension liability	20,952,704	8,998,526
(Increase) decrease in deferred inflows	(3,684,754)	820,112
(Increase) decrease in deferred outflows	(15,374,111)	(11,940,886)
Net cash (used for) provided by operating activities	\$ 30,419,401	\$ 29,097,453
Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	\$ 231,267,863	\$ 175,841,205
Restricted cash and investments:		
Debt service/covenants	71,575,859	99,120,043
Construction	256,083,590	164,582,603
Total cash and investments	558,927,312	439,543,851
Less investments	245,362,920	180,968,993
Cash and cash equivalents	\$ 313,564,392	\$ 258,574,858
Noncash capital, financing, and investing activities		
Capital asset contributions from developers	\$ 12,498,450	\$ 34,802,124
Net increase (decrease) in fair value of investments	(2,151,319)	1,607,359
Termination of interest rate swap hedge effectiveness	-	-
Amortization of bond premiums, discounts, and loss on debt refundings	(1,117,194)	286,127

The accompanying notes are an integral part of these financial statements.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

The District formed the Eastern Municipal Water District Financing Authority (Financing Authority) on April 1, 2015, under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to enable the District to finance, refinance, or provide interim financing for the acquisition, construction, and operation of water supplies, water and wastewater infrastructure, water rights, public facilities, other public capital improvements, or other projects whenever there is significant public benefits. The Financing Authority is a blended component unit of the District.

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Measurement Focus

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

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Cash Equivalents

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

Classification of Revenues and Expenses

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Classification of Revenues and Expenses (continued)

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

Capital Assets

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

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

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

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

EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to \$215,340 at June 30, 2017.

Inventories

Material and supplies inventory consists primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost. Water inventory consists of native groundwater and purchased water holdings in the Hemet-San Jacinto Basin. It is valued based upon purchase cost and weighted average cost of consumption (refer to Note 10 to the basic financial statements for more information regarding water inventory).

Restricted Assets

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

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

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

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on thirty-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, however, revenues are accrued by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$9,338,103 at June 30, 2017.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Property Taxes

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

The property tax calendar is as follows:

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

Debt Discounts, Premiums, and Deferred Amounts on Refunding

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

Compensated Absences

The District has a policy whereby an employee can accumulate unused paid time off up to a maximum of 675 hours. Hours in excess of the maximum are paid out to employees each November. All employees who separate from the District are entitled to receive 100 percent of their accumulated unused paid time off. The District provides for these future costs by accruing 100 percent of all earned and unused paid time off.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Pensions (continued)

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has four items that qualify for reporting in this category: the accumulated decrease in fair value of swap contracts, the deferred outflows on pension contributions, the actuarial difference between projected and actual earnings on pension plan investments and the deferred charges on debt refundings. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. The District has one item that qualify for reporting in this category, the deferred inflow – actuarial. This is reported on the Statement of Net Position.

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 — Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the District’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District’s own data.

Use of Estimates

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

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District’s prior year financial statements, from which this selected financial data was derived.

Interest Rate Swap Contracts

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

Fair values of these interest rate swap contracts are reported as liabilities, and its changes in the fair value are reported as deferred outflows of resources in the statement of net position. As of June 30, 2017, all potential hedging instruments of the District are considered effective hedges.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 231,267,863	\$ 175,841,205
Restricted assets:		
Debt service covenants	71,575,859	99,120,043
Construction	256,083,590	164,582,603
Totals	<u>\$ 558,927,312</u>	<u>\$ 439,543,851</u>

Cash and investments consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 6,500	\$ 4,900
Deposits with financial institutions	273,775	21,068,145
Investments	558,647,037	418,470,806
Total cash and investments	<u>\$ 558,927,312</u>	<u>\$ 439,543,851</u>

Cash and cash equivalents consisted of the following:

	<u>2017</u>	<u>2016</u>
Demand accounts and on hand	\$ 280,275	\$ 21,058,060
Local Agency Investment Fund (LAIF)	264,069,578	149,052,916
Investment Trust of California (CalTRUST)	25,675,164	56,566,480
Money Market Mutual Funds	23,539,375	31,897,402
Total cash and investments	<u>\$ 313,564,392</u>	<u>\$ 258,574,858</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

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

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

Investment Types	Authorized by	Maximum	Maximum	Maximum
Authorized by State Law	Investment	Maturity*	Percentage	Investment
	Policy		of Portfolio*	in One Issuer*
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreement	No ¹	1 Year	None	None
Reverse repurchase agreements	No	92 Days	20%	None
Medium-term notes	Yes	5 Years	30%	25%
Mortgage pass-through securities	No	5 Years	None	None
LAIF	Yes	None	None	\$65,000,000
CA local agency securities	Yes	5 Years ²	30% ³	25% ³
Mutual funds	No	N/A	None	None
Money market mutual funds	Yes	N/A	15%	10%
County pooled investment funds	No	N/A	None	None
Joint powers authority (CalTRUST)	Yes	N/A	15%	15%
Investment contracts	Yes	None	None	None

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

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

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

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Interest Rate Risk (continued)

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

Investment Type	Months				
	Total	12 or Less	13 to 24	25 to 60	More than 60
U.S. Agency Securities:					
Federal Farm Credit Bank (FFCB)	\$ 39,914,700	\$ 14,969,400	\$ 19,954,900	\$ 4,990,400	\$ -
Federal Farm Credit Bank (FFCB)- Floating	10,020,200	-	-	10,020,200	-
Federal Home Loan Bank (FHLB)	9,967,300	9,967,300	-	-	-
Federal Home Loan Mortgage Corp. (FHLMC)	20,429,845	-	15,438,095	4,991,750	-
Federal National Mortgage Assn. (FNMA)	40,536,170	14,968,350	4,966,200	20,601,620	-
Corporate- Fixed	57,883,925	34,758,040	19,349,860	3,776,025	-
Corporate- Floating	14,887,206	8,015,620	6,871,586	-	-
Municipal	51,723,574	10,688,963	9,478,995	31,555,616	-
LAIF	264,069,578	264,069,578	-	-	-
Investment Trust of California (CalTRUST)	25,675,164	25,675,164	-	-	-
Money Market Mutual Funds	4,567,525	4,567,525	-	-	-
Held by Trustee:					
Money Market Mutual Funds	18,971,850	18,971,850	-	-	-
Total Investments	<u>\$ 558,647,037</u>	<u>\$ 406,651,790</u>	<u>\$ 76,059,636</u>	<u>\$ 75,935,611</u>	<u>\$ -</u>

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2017 the District had \$14,887,206 invested in corporate floating notes and \$10,020,200 in federal agency securities floating notes.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table below shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's Rating Services credit rating as of year-end for each investment type.

Category	Total	Minimum Legal Rating	Rating at June 30, 2017			
			AAA	AA	A	Not Rated
U.S. Agency						
FFCB	\$ 39,914,700	N/A	\$ -	\$ 39,914,700	\$ -	-
FFCB- Floating	10,020,200	N/A	-	10,020,200	-	-
FHLB	9,967,300	N/A	-	9,967,300	-	-
FHLMC	20,429,845	N/A	-	20,429,845	-	-
FNMA	40,536,170	N/A	-	40,536,170	-	-
Corporate- Fixed	57,883,925	A	3,196,793	40,830,336	13,856,796	-
Corporate- Floating	14,887,206	A	-	14,887,206	-	-
Municipal	51,723,574	N/A	4,010,680	44,874,604	2,838,290	-
LAIF	264,069,578	N/A	-	-	-	264,069,578
CalTRUST	25,675,164	N/A	-	25,675,164	-	-
Money Market Mutual Funds	4,567,525	AAA*	4,567,525	-	-	-
Held by Trustee:						
Money Market Mutual Funds	18,971,850	N/A	18,971,850	-	-	-
Total Investments	\$ 558,647,037		\$ 30,746,848	\$ 247,135,525	\$ 16,695,086	\$ 264,069,578

*Money market mutual funds are rated AAAM by S&P and Aaa-mf by Moody's at June 30, 2017. These ratings meet minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2017.

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	U.S. Agency Securities	\$49,934,900
FNMA	U.S. Agency Securities	40,536,170

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2017, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded at fair market value. Additional information about the State of California's LAIF can be found on their website www.treasurer.ca.gov/pmia.laif.

Investment in Investment Trust of California (CalTRUST)

The District is a voluntary participant in CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 — Cash and Investments (Continued)

Investment in Investment Trust of California (CalTRUST) (continued)

value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2017:

Category	Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3
Investments reported at Fair Value				
U.S. Agency				
FFCB	\$ 39,914,700	\$ -	\$ 39,914,700	\$ -
FFCB- Floating	10,020,200	-	10,020,200	-
FHLB	9,967,300	-	9,967,300	-
FHLMC	20,429,845	-	20,429,845	-
FNMA	40,536,170	-	40,536,170	-
Corporate- Fixed	57,883,925	-	57,883,925	-
Corporate- Floating	14,887,206	-	14,887,206	-
Municipal	51,723,574	-	51,723,574	-
CalTRUST	25,675,164	-	25,675,164	-
Total Investments at Fair Value	<u>\$ 271,038,084</u>	<u>\$ -</u>	<u>\$ 271,038,084</u>	<u>\$ -</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 — Capital Asset Activity

The capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 56,160,972	\$ 2,150,879	-	\$ 58,311,851
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	93,124,927	88,097,597	(49,590,991)	131,631,533
Total capital assets not being depreciated	151,036,799	90,248,476	(49,590,991)	191,694,284
Capital assets, being depreciated				
Water plant, lines and equipment	1,148,804,466	20,510,493	(1,973,073)	1,167,341,886
Water capacity rights	30,074,350	-	-	30,074,350
Sewer plant, lines and equipment	1,872,527,632	22,758,711	(3,148,265)	1,892,138,078
Equipment and general facilities	134,118,749	6,321,787	(20,945,712)	119,494,824
Total capital assets being depreciated	3,185,525,197	49,590,991	(26,067,050)	3,209,049,138
Less accumulated depreciation for				
Water plant, lines and equipment	428,313,179	40,179,029	(1,523,295)	466,968,913
Water capacity rights	8,785,594	722,730	-	9,508,324
Sewer plant, lines and equipment	566,583,257	48,798,801	(1,810,369)	613,571,689
Equipment and general facilities	94,067,374	6,267,694	(19,789,843)	80,545,225
Total accumulated depreciation	1,097,749,404	95,968,254	(23,123,507)	1,170,594,151
Total capital assets being depreciated, net	2,087,775,793	(46,377,263)	(2,943,543)	2,038,454,987
Capital assets, net	\$ 2,238,812,592	\$ 43,871,213	\$ (52,534,534)	\$ 2,230,149,271

Net interest cost capitalized during fiscal year ended June 30, 2017 was \$1,600,962.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Ending Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017	Due Within One Year
Long-Term Debt					
Advances for Construction, Notes and Assessments:					
CA DWR Prop 204 (HWFP)	\$ 21,999,043	\$ -	\$ (1,614,069)	\$ 20,384,974	\$ 820,816
SWRCB SRF loan (APAD)	37,553,551	-	(2,135,398)	35,418,153	2,144,409
SWRCB SRF loan (SCATT)	31,234,639	-	(1,809,878)	29,424,761	-
Total notes payable	90,787,233	-	(5,559,345)	85,227,888	2,965,225
Capital Lease Obligations	23,752	-	(10,970)	12,782	11,764
Revenue Bonds:					
2011A refunding	26,150,000	-	(8,420,000)	17,730,000	4,145,000
2012A refunding	50,000,000	-	(50,000,000)	-	-
2013A refunding	54,575,000	-	(54,575,000)	-	-
2014A refunding	48,645,000	-	(48,645,000)	-	-
2014B refunding	45,175,000	-	(45,175,000)	-	-
2014C refunding	54,460,000	-	(54,460,000)	-	-
2015A refunding	50,000,000	-	-	50,000,000	-
2015B	74,430,000	-	-	74,430,000	-
2016A Refunding	209,230,000	-	(3,900,000)	205,330,000	5,010,000
2016B Refunding	-	124,925,000	-	124,925,000	1,300,000
2017A Refunding	-	54,810,000	-	54,810,000	-
2017B Refunding	-	50,225,000	-	50,225,000	-
2017C Refunding	-	17,515,000	-	17,515,000	-
2017D	-	102,500,000	-	102,500,000	-
2017E Refunding	-	147,970,000	-	147,970,000	330,000
2017F Refunding	-	47,545,000	-	47,545,000	-
Unamortized premium	50,917,542	47,399,786	(3,537,873)	94,779,455	4,667,009
Total revenue bonds	663,582,542	592,889,786	(268,712,873)	987,759,455	15,452,009
Certificates of Participation:					
2007A refunding	20,135,000	-	(20,135,000)	-	-
2008C refunding	47,545,000	-	(47,545,000)	-	-
2008H	140,035,000	-	(140,035,000)	-	-
Net unamort prem/disc	(325,729)	-	325,729	-	-
Total COPs	207,389,271	-	(207,389,271)	-	-
General Obligation Bonds:					
2005A	12,390,000	-	(495,000)	11,895,000	515,000
2009	22,150,000	-	(500,000)	21,650,000	525,000
Net unamort prem/disc	380,903	-	(20,394)	360,509	20,393
Total GO bonds	34,920,903	-	(1,015,394)	33,905,509	1,060,393
Sub-total long term debt	996,703,701	592,889,786	(482,687,853)	1,106,905,634	19,489,391
Other Noncurrent Liabilities					
Compensated absences	14,432,512	21,458,568	(23,088,517)	12,802,563	7,634,381
Total long-term liabilities	\$ 1,011,136,213	\$ 614,348,354	\$ (505,776,370)	\$ 1,119,708,197	\$ 27,123,772

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

The following schedule summarizes the major terms of outstanding long-term debt:

	Date of Issue	Original Issue	Revenue Sources	Lien	Final Maturity Date	Interest Rates
Advances for construction, notes and assessments:						
CA DWR Prop 204 (HWFP) <i>Hemet Water Filtration Plant Construction Project</i>	3/3/05	\$ 42,098,388	(a)	Subordinate	7/1/28	Imputed-2.273%
SWRCB SRF loan						
(APAD) <i>Moreno Valley RWRF Acid Phase Anaerobic Digestion Project</i>	9/15/09	43,908,096	(a)	Subordinate	3/16/33	0.422%
SWRCB SRF loan (SCATT) <i>Moreno Valley RWRF Secondary Clarifier & Tertiary Treatment Expansion Project</i>	6/23/09	38,302,852	(a)	Subordinate	7/5/32	1.0%
Revenue Bonds:						
2011A Refunding	7/20/11	56,225,000	(a)	Senior	7/1/20	4% to 5%
2015A Refunding	6/23/15	50,000,000	(a)	Subordinate	7/1/39	Variable
2015B	6/18/15	74,430,000	(a)	Subordinate	7/1/39	4% to 5%
2016A Refunding	4/5/16	209,230,000	(a)	Subordinate	7/1/39	2% to 5%
2016B Refunding	9/14/16	124,925,000	(a)	Subordinate	7/1/35	2% to 5%
2017A Refunding	4/12/17	54,810,000	(a)	Subordinate	7/1/35	Variable
2017B Refunding	4/12/17	50,225,000	(a)	Subordinate	7/1/38	Variable
2017C Refunding	5/2/17	17,515,000	(a)	Subordinate	7/1/23	5.0%
2017D	5/18/17	102,500,000	(a)	Subordinate	7/1/47	5.0% to 5.25%
2017E Refunding	5/25/17	147,970,000	(a)	Subordinate	7/1/46	Variable
2017F Refunding	5/25/17	47,545,000	(a)	Subordinate	7/1/46	Variable
General Obligation Bonds:						
2005A	6/7/15	18,255,000	(b)	N/A	9/1/35	4% to 5%
2009	8/12/09	31,625,000	(b)	N/A	9/1/39	4.25% to 5.625%

(a) Net water and sewer revenues

(b) Ad valorem taxes levied and collected on sixty-one special improvement districts within the District's service area

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

Future principal and interest requirements on all long-term debt are as follows:

Year ending June 30:	Principal	Interest	Total
2018	\$ 14,801,989	\$ 32,389,260	\$ 47,191,249
2019	17,992,174	33,786,997	51,779,171
2020	18,601,687	32,828,939	51,430,626
2021	19,328,311	31,792,014	51,120,325
2022	45,550,744	32,960,772	78,511,516
2023-2027	122,800,273	140,361,494	263,161,767
2028-2032	140,190,491	117,771,495	257,961,986
2033-2037	181,505,001	86,682,400	268,187,401
2038-2042	200,000,000	60,239,966	260,239,966
2043-2047	205,400,000	27,820,225	233,220,225
2048	45,595,000	1,139,875	46,734,875
Sub-total	1,011,765,670	597,773,437	1,609,539,107
Add: Unamortized premium/discount	95,139,964	-	95,139,964
Total	\$ 1,106,905,634	\$ 597,773,437	\$ 1,704,679,071

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments include project financing agreements executed with the State of California Department of Water Resources and the State of California Water Resources Control Board between March 2005 and September 2009. These agreements, detailed in the summary of major terms of outstanding long-term debt, provide financing for various projects and construction costs.

Future principal and interest payments on these advances for construction, notes and assessments are as follows:

Year ending June 30:	Principal	Interest	Total
2018	\$ 2,965,225	\$ 934,320	\$ 3,899,545
2019	5,651,156	869,862	6,521,018
2020	5,716,687	804,331	6,521,018
2021	5,783,311	737,707	6,521,018
2022	29,955,744	2,649,345	32,605,089
2023-2027	26,415,273	927,520	27,342,793
2028-2032	8,740,492	91,706	8,832,198
Total	\$ 85,227,888	\$ 7,014,791	\$ 92,242,679

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

Advances for Construction, Notes and Assessments (continued)

On January 25, 2016, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing, under the Clean Water State Revolving Fund, for planning, design and construction costs related to the North Trumble and PVRWRF Case Road Recycled Storage Ponds project. This agreement provides \$11,246,300 in funding with a future thirty-year loan at an interest rate of 1.0 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal that will be due to the State Water Board is \$7,798,170 with the remaining balance of \$3,448,130 awarded as a grant. Loan repayment is expected to begin in June 30, 2018. Construction advances totaling \$4,790,073 for this project were recorded through June 30, 2017.

Debt service requirements to maturity for this construction advance is not included in the debt schedule because the requirements have not yet been determined by the lending party. A schedule of payments will be determined upon completion of the funding for the project and payments will begin approximately one year after completion of construction.

Revenue Bonds

The outstanding revenue bonds were issued to provide financing for various projects and facility improvements and to refund certain prior revenue Bonds issued for the purpose of decreasing related debt service costs. Outstanding revenue Bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on all revenue Bonds as of June 30, 2017 are as follows:

Year ending June 30:	Principal	Interest	Total
2018	\$ 10,785,000	\$ 29,759,008	\$ 40,544,008
2019	11,255,000	31,269,864	42,524,864
2020	11,750,000	30,428,215	42,178,215
2021	12,360,000	29,509,251	41,869,251
2022	14,355,000	28,820,568	43,175,568
2023-2027	89,685,000	132,930,021	222,615,021
2028-2032	123,795,000	112,956,500	236,751,500
2033-2037	172,460,000	84,238,868	256,698,868
2038-2042	195,540,000	59,852,685	255,392,685
2043-2047	205,400,000	27,820,225	233,220,225
2048	45,595,000	1,139,875	46,734,875
	892,980,000	568,725,080	1,461,705,080
Add: Unamortized premium	94,779,455	-	94,779,455
Total	\$ 987,759,455	\$ 568,725,080	\$ 1,556,484,535

EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 — Long-Term Liabilities (Continued)

2016B Refunding Revenue Bonds

In September 2016, the District issued \$124,925,000 in refunding revenue bonds, Series 2016B. The net proceeds were used to pay the costs of executing and delivering the 2016B Bonds and advance refund the outstanding 2008H Certificates of Participation.

A portion of the proceeds of the 2016B bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008H COPs. These funds are being held until July 1, 2018 when the 2008H COPs are redeemable and as a result, these certificates are considered defeased and the liability for the certificates has been removed from the Statement of Net Position. The 2016B bonds were issued on the subordinate lien which improves the debt service coverage on the outstanding senior debt. Refunding the 2008H COPs released \$14.4 million in restricted reserves to be used to finance additional capital projects and reduced debt service payments over 18 years by \$34.6 million. The reacquisition price exceeded the net carrying amount of the old debt by \$12,026,470 and resulted in \$29.7 million net present value savings.

The 2016B bonds include principal installments due in varying amounts from \$1,300,000 to \$22,460,000 annually from July 1, 2017 to July 1, 2035, with interest payable semiannually at fixed rates ranging from 2 to 5 percent.

2017A Refunding Revenue Bonds

In April 2017, the District issued \$54,810,000 in refunding revenue bonds, Series 2017A. The net proceeds were used to current refund the outstanding 2013A SIFMA Flex Index Tender Notes and to pay the costs of issuance of the 2017A bonds.

A portion of the proceeds of the 2017A revenue bonds were deposited with the 2013A Trustee for redemption of the 2013A revenue bonds and as a result, these bonds are considered defeased and the liability for the bonds has been removed from the Statement of Net Position. The 2017A bonds require less administrative overhead than the original index notes and were issued on the subordinate lien which improves the debt service coverage on the outstanding senior debt. The 2017A and 2013A refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017A Bonds include principal installments due in varying amounts from \$3,820,000 to \$5,395,000 annually from July 1, 2024 to July 1, 2035, with interest payable semiannually at a variable rate that is remarketed weekly based on the SIFMA index rate.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017B Refunding Revenue Bonds

In April 2017, the District issued \$50,225,000 in refunding revenue bonds, Series 2017B. The net proceeds were used to current refund the outstanding 2012A SIFMA Floating Rate Notes and to pay the costs of issuance of the 2017B bonds.

A portion of the proceeds of the 2017B revenue bonds were deposited with the 2012A Trustee for redemption of the 2012A revenue bonds and as a result, these bonds are considered defeased and the liability for the bonds has been removed from the Statement of Net Position. The 2017B bonds require less administrative overhead than the original 2012A bonds and were issued on the subordinate lien which improves the debt service coverage on the outstanding senior lien. The 2017B and 2012A refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017B bonds include principal installments due in varying amounts from \$16,075,000 to \$17,365,000 annually from July 1, 2026 to July 1, 2038, with interest payable semiannually at a variable rate that is remarketed weekly, based on the SIFMA index rate.

2017C Refunding Revenue Bonds

In May 2017, the District issued \$17,515,000 in refunding revenue bonds, Series 2017C. The net proceeds were used to current refund the outstanding 2007A certificates of participation and to pay the costs of issuance of the 2017C Bonds.

A portion of the proceeds of the 2017C Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2007A COPs maturing on July 1, 2017 and for the payment of the certificates maturing after July 1, 2017. As a result, these certificates are considered defeased and the liability for the certificates has been removed from the Statement of Net Position. The refunding of the 2007A certificates of participation resulted in \$2.7 million net present value savings and freed up \$4.4 million in restricted debt service reserve funds to be used for financing capital projects. The refunding reduced debt service payments over 7 years by \$3.4 million and the reacquisition price equaled the net carrying amount of the old debt resulting in no deferred cost of refunding.

The 2017C bonds include principal installments due in varying amounts from \$5,555,000 to \$6,130,000 annually from July 1, 2021 to July 1, 2023, with interest payable semiannually at a fixed rate of 5 percent.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017D Revenue Bonds

In May 2017, the Eastern Municipal Water District Financing Authority issued \$102,500,000 in Revenue Bonds, Series 2017D. The bonds were issued to finance the acquisition and construction of water and sewer capital improvements for the District and to pay the costs of executing and delivering the 2017D Bonds.

The 2017D Bonds include principal installments due in varying amounts from \$5,555,000 to \$6,130,000 annually from July 1, 2021 to July 1, 2023, with interest payable semiannually at a fixed rate of 5 percent.

2017E Refunding Revenue Bonds

In May 2017, the District completed a private placement refunding of the 2014A, 2014B, and 2014C refunding revenue bonds into the \$147,970,000 Series 2017E refunding revenue bonds. The bonds were placed with Wells Fargo Bank for a term of three years with an expiration date of May 25, 2020.

Refunding the 2014 series revenue bonds shifted the base index from SIFMA to 70 percent of the LIBOR, diversifying the District's variable rate debt portfolio. The 2017E bonds were issued on the subordinate lien which maintains the debt service coverage on the outstanding senior debt. The 2017E and 2014A, 2014B and 2014C refunding revenue bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017E refunding revenue bonds include principal installments due in varying amounts annually from \$330,000 to \$8,090,000 from July 1, 2017 to July 1, 2030 with an interest rate of 3.1 percent that is synthetically fixed through a swap agreement with Wells Fargo Bank carried forward from the 2014C refunding revenue bonds. The remaining principal is due in varying amounts annually from \$15,575,000 to \$19,920,000 from July 1, 2039 to July 1, 2046. Interest on the unhedged bonds is payable semiannually at a variable rate that is remarketed monthly, based on an index of 70 percent of LIBOR plus 30 basis points.

2017F Refunding Revenue Bonds

In May 2017, the District completed a private placement refunding of the 2008C Certificates of Participation into the 2017 Refunding Revenue Bonds. The bonds were placed with Bank of America for a term of four years with an expiration date of May 25, 2021.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

2017F Refunding Revenue Bonds (continued)

Refunding the 2008C COPs shifted the base index from SIFMA to 70 percent of the LIBOR, diversifying the District's variable rate debt portfolio. The 2017F bonds were issued on the subordinate lien, shifting the principal from the senior lien and improving the debt service coverage on the outstanding senior debt. The 2017F and 2008C refunding bonds are variable rate debt, therefore, there is no economic gain or loss resulting from the refunding other than the cost to underwrite.

The 2017F refunding revenue bonds include principal installments due in varying amounts from \$5,230,000 to \$6,705,000 from July 1, 2039 to July 1, 2046 with a partially hedged variable interest rate set at 5.13 percent through a swap agreement with Wells Fargo Bank carried forward from the 2008C refunding certificates of participation. The swap, amortized separately from the 2017F bond principal payments, will expire in 2020. Interest on the unhedged portion of the bonds is payable semiannually at a variable rate that is remarketed monthly based on an index of 70 percent LIBOR plus 35 basis points.

General Obligation (GO) Bonds

The outstanding general obligation bonds were issued by the Western Riverside Water and Wastewater Financing Authority in May 2005 and August 2009 to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the GO Bonds. The major terms of these bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on total general obligation bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2018	\$ 1,040,000	\$ 1,695,407	\$ 2,735,407
2019	1,085,000	1,647,265	2,732,265
2020	1,135,000	1,596,393	2,731,393
2021	1,185,000	1,545,056	2,730,056
2022	1,240,000	1,490,859	2,730,859
2023-2027	6,700,000	6,503,953	13,203,953
2028-2032	7,655,000	4,723,289	12,378,289
2033-2037	9,045,000	2,443,532	11,488,532
2038-2042	4,460,000	387,281	4,847,281
Sub-total	33,545,000	22,033,035	55,578,035
Add: Unamortized premium	360,509	-	360,509
Total	<u>\$ 33,905,509</u>	<u>\$ 22,033,035</u>	<u>\$ 55,938,544</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

General Obligation (GO) Bonds (continued)

The general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2017, general obligation bonds authorized but not issued total \$547,650,000.

The District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets in the trust account and the liability for the defeased debt are not included on the District's financial statements. On June 30, 2017, \$160.1 million of bonds outstanding were considered defeased.

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest on the Hemet Water Filtration Plant State Revolving Fund in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment payments. The current required reserve amount and reserve balance at June 30, 2017 for the outstanding debt is as follows:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess (Deficiency)</u>
Hemet WFP SRF- \$4.21M ¹	\$ 1,894,428	\$ 1,925,679	\$ 31,251
Total Debt Service Reserve Funds	\$ 1,894,428	\$ 1,925,679	\$ 31,251

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

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 — Long-Term Liabilities (Continued)

Master Resolution

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

1. Debt Coverage Ratio

The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2017, the District’s parity and subordinate obligation debt service coverage ratios were 7.1 times and 3.4 times, respectively.

2. Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amount and the actual reserve balance at June 30, 2017 was \$37,459,564.

NOTE 5 - Interest Rate Swap Contracts

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2017 are \$155,035,000 Series 2015A, 2017A and 2017B Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for bondholders on seven-day notice, to tender their bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of “events of defaults”. As of June 30, 2017, there were no outstanding bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2017 for each Supported Variable Rate Debt is:

Description	SPA Bank	SPA Expiration Date
2015A Bond	MUFG Union Bank	06/22/2018
2017A Bond	Sumitomo Mitsui Banking Corp	04/12/2022
2017B Bond	Sumitomo Mitsui Banking Corp	04/12/2022

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2017, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2017</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash flow hedges:					
2017E Bonds	Pay-fixed interest swap				
	Deferred inflow	\$ 345,041	Debt	\$ (8,062,436)	\$ 54,150,000
2017F Bonds	Pay-fixed interest swap- cost of funds				
	Deferred inflow	\$ 97,602	Debt	\$ (1,816,477)	\$ 27,995,000

The expected swap cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. The observability of inputs used to perform the measurement results in the swap fair values being categorized as Level 2.

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding debt. The District realized greater interest savings from debt refinancing by issuing variable interest rate debt along with the financial instruments than would have been realized had the District issued conventional fixed rate debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2017, along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017E debt issue	\$ 54,150,000	11/1/14	7/1/30	Pay 3.1%, receive 66% of one-month LIBOR from WFB	S&P: AA- Moody's: Aa2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2017F debt issue	\$ 27,995,000	12/1/14	7/1/20	Pay 5.125%, receive the SIFMA Swap Index from WFB	S&P: AA- Moody's: Aa2

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Credit Risk

The counterparty credit ratings as of June 30, 2017 are shown in the table above. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2017.

Interest Rate Risk

The District is exposed to interest rate risk on its financial instruments. As the 1-month LIBOR or the SIFMA Swap Index decreases, the District's net payment on the swap increases.

Basis Risk

The financial instruments expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payment to be made on the debt. The District pays the counterparty a fixed rate of 5.125 percent and receives the SIFMA Swap Index for the 2017F financial instrument, which may be different from the variable rate payments made on the 2017F debt. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2017E and 2017F bonds rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value.

On May 25, 2017, the Series 2014C and 2008C bonds were refunded with the Series 2017E and 2017F bonds. This resulted in a termination of hedge accounting with the balance in the deferred outflow from hedge accounting being cleared. Hedge accounting is resumed with the hedged bonds being the Series 2017E and 2017 F bonds. As of June 30, 2017, the financial instruments had a combined negative fair value of \$9,878,913.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 — Interest Rate Swap Contracts (continued)

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event the lowest credit rating assigned to any of its long-term, unenhanced debt secured by a pledge of Net Water and Sewer Revenues falls below A- as issued by Fitch Ratings, A-as issued by Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparty. At June 30, 2017, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$9,878,913. If the collateral posting requirements were triggered at June 30, 2017, the District would be required to post \$9,878,913 to the counterparty. The District's credit ratings for its senior Revenue Bonds were AAA/Aa2/AA+ and the credit ratings for its subordinate Revenue Bonds were AA+/Aa3/AA+ by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2017.

NOTE 6 - Defined Benefit Pensions Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employees. Benefit provisions under the Plans are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	Miscellaneous		
	<u>Prior to 11/1/10</u>	<u>11/1/10-1/1/13</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	50-55	62-67
Monthly Benefits as a % of eligible compensation	2.5%	2.0% to 2.5%	2.0% to 2.5%
Required employee contribution rates	8.0%	7.0%	5.75%
Required employer contribution rates	19.2%	19.2%	19.2%

Employees Covered

The following employees were covered by the benefit terms for each plan:

Active Members	619
Transferred Members	80
Terminated Members	105
Retired Members and Beneficiaries	<u>429</u>
Total	<u>1,233</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Contribution Description

Section 20814 (c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2016 (the measurement date), the District’s average contribution rate is 17.81 percent of annual payroll. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any District Paid Member Contributions or situations where members are paying the portion of the District contribution.

Actuarial Methods and Assumptions Used To Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	7.5%Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table ¹	Derived using CalPERS’ Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ The mortality table used was developed based on CalPERS’ specific data. The table includes twenty years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study Report can be obtained at the CalPERS website under Forms and Publications.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking in to account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first ten years) and the long-term (eleven to sixty years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2015.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11²</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
	<u>100.0%</u>		

¹An expected inflation of 2.5% used for this period

²An expected inflation rate of 3.0% used for this period

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the actuarial valuation report due to several reasons. First, CalPERS must keep Reserves for Deficiencies and Fiduciary Self Insurance. These amounts are excluded for rate setting purposes in the actuarial valuation report while required to be included for GASB reporting purposes. In addition, differences may result from early CAFR closing and final reconciled reserves.

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2015 (VD)	\$ 366,239,154	\$ 270,031,488	\$ 96,207,666
Changes Recognized for the Measurement Period:			
Service Cost	7,843,422	-	7,843,422
Interest on the Total Pension Liability	27,711,744	-	27,711,744
Changes of Benefit Terms	-	-	-
Differences between Expected Plan to Plan Resource Movement and Actual Experience	(377,219)	-	(377,219)
Changes of Assumptions	-	-	-
Contributions from the Employer	-	8,782,080	(8,782,080)
Contributions from Employees (1)	-	4,187,293	(4,187,293)
Net Investment Income	-	1,420,440	(1,420,440)
Benefit Payments, including Refunds of Employee Contributions	(15,077,250)	(15,077,250)	-
Administrative Expense	-	(164,570)	164,570
Net Changes during 2015-2016	\$ 20,100,697	\$ (852,007)	\$ 20,952,704
Balance at 6/30/2016 (MD)	\$ 386,339,851	\$ 269,179,481	\$ 117,160,370

(VD) Valuation Date

(MD) Measurement Date

(1) Includes both the employee contributions and the employer paid member contributions

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	Discount Rate	Current	Discount Rate
	-1%	Discount	+1%
	6.65%	7.65%	8.65%
Plan's Net Pension Liability/(Asset)	\$ 170,829,184	\$ 117,160,370	\$ 72,749,365

Subsequent Events

In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5 percent over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020 and 2021 are 7.375 percent, 7.25 percent and 7.00 percent, respectively.

Recognition of Gains and Losses

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Differences between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lifetime of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 — Defined Benefit Pensions Plan (Continued)

Recognition of Gains and Losses (continued)

The EARSL for the Plan for the June 30, 2016 measurement period is 4.8 years, which was obtained by dividing the total service years of 5,913 (the sum of remaining service lifetimes of the active employees) by 1,240 (the total number of participants: active, inactive and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2016 (the measurement date), the District recognized a pension expense of \$11,593,126 for the plan.

As of June 30, 2017, the District reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,699,290	\$ -
Changes in Assumptions	-	(4,028,543)
Differences between Expected and Actual Experience	-	(369,241)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>14,456,901</u>	<u>-</u>
Total	<u>\$ 24,156,191</u>	<u>\$ (4,397,784)</u>

The \$9,699,290 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2017	\$ 553,996
2018	553,996
2019	5,199,422
2020	3,751,703
2021	-

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 — Defined Contribution Plan

The District maintains the EMWD 401(a) Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its Union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401(a) Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 401(a) Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contribution to the 401(a) Plan was \$768,373 for the fiscal year ended June 30, 2017.

In July 2011, the District executed a plan amendment to its 401(a) Plan to provide for a contribution to this 401(a) Plan on behalf of the General Manager in accordance with his employment contract. Contribution to this 401(a) Plan was \$43,527 the fiscal year ended June 30, 2017.

The district provides a voluntary 457(b) deferred compensation plan for employees to contribute to their retirement on a tax-deferred basis. In October 2013, the District executed an amendment to its 401(a) Plan to provide for a matching contribution for those employees contributing to the 457(b) deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan equal to 100 percent of an employee's 457(b) contribution at a rate of 2.0 percent in Year 1 of the labor contract (July 24, 2016 to December 31, 2017), 3.0 percent in Year 2 (January 1, 2018 to December 31, 2018), and 4.0 percent in Year 3 (January 1, 2019 to December 31, 2019). Matching contributions to the 401(a) plan totaled \$819,563 for the fiscal year ended June 30, 2017.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions

Plan Description

Health Care Benefits - The District provides postemployment health care benefits to all qualified employees who meets the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code 22893 (Vesting for Contracting Agency Employees). This amount of District's contribution varies according to the retiree's medical benefit tiers as follows:

Tier 1 (Hired Prior to August 1, 2005)- For the plan year 2016, the District paid up to the greater of Blue Shield or Kaiser Southern CA non-Medicare (basic) premium coverage less retiree cost-sharing contributions. The cost-sharing monthly contribution was up to \$86.67 for family coverage. The District's monthly contribution was \$1,703. Effective January 1, 2017, the District's contribution is 100 percent of the coverage level elected by the retiree up to a maximum of \$675 per month for single coverage, \$1,350 for two-party coverage and \$1,750 per month for family coverage. The cost-sharing monthly contribution is the difference between the cost of medical coverage provided (through PEMHCA or Kaiser 'A') and the District's contribution. The District's contribution consist of the CalPERS statutory minimum required contribution of \$128 for 2017 and a contribution through a health reimbursement arrangement (HRA). Retirees in the Kaiser A HMO are required to pay a monthly contribution based on the family coverage category elected.

Tier 2 (Hired from August 1, 2005 to March 26, 2014)- For the plan year 2016, the District paid the greater of the Tier 1 contribution (after cost sharing) or PEMHCA published average of the four health benefit plans that had the largest state enrollment, multiplied by vesting percentage according to PEMHCA Section 22893. Vesting percentages ranged from 50 percent to 100 percent for retirees with CalPERS service of 10 years to 20 years or more. Effective January 1, 2017, the District's contribution is 100 percent of the coverage level elected by the retiree, up to the greater of the same contribution amount as a retiree hired prior to August 1, 2005 multiplied by a vesting schedule or the 100/90 amount per PEMHCA. The 100/90 amount is 100 percent of the weighted average of single coverage and 90 percent of the weighted average of additional premium for two-arty and family coverage for the four PEMCHA plans with the highest State enrollment in the prior year, for 2017: \$707 for single, \$1,349 for two-party and \$1,727 for family. The District's contribution consist of the CalPERS statutory minimum required contribution of \$128 for 2017 and a contribution through a health reimbursement agreement (HRA).

Tier 3 (hired after March 26, 2014) - The District's contribution is the PEMHCA minimum required contribution of \$125 per month in 2016 and \$128 per month for 2017.

The District also provides healthcare benefits to elected official retirees in accordance with the District's Administrative Code. This plan contributes up to the District's contribution amount for employees and dependent coverage.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Plan Description (continued)

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

The benefit provisions for retired employee health care and life insurance are established and amended through the memorandum of understanding between the District and the Union. The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

Funding Policy and Annual OPEB Cost

Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. The contribution requirements of the District for retired elected officials may be amended through Board action to update Ordinance 70, for the health benefit plan, or with the life insurance company, for the life insurance benefits. The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's policy is to continue to fund costs on a pay-as-you-go basis and to prefund a portion of the unfunded actuarial liability as part of a long-term financial planning strategy. On April 18, 2012, the District's Board of Directors adopted a resolution to establish an OPEB Trust and to authorize an agreement with PERS to join the California Employers' Retiree Benefit Trust (CERBT) Program. On June 12, 2012, the District joined the CERBT Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. PERS issues a publicly available financial report that includes financial statements and required supplementary information relating to the CERBT Program. The report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

The District's total contribution for the fiscal year ended June 30, 2017 was \$17,562,209. This total included a pay-as-you-go contribution of \$3,428,496 and CERBT trust contributions of \$14,133,713.

The District's annual OPEB cost for the current year, the amount actually contributed, the changes in net OPEB obligation, and the related information for each plan are shown in the table on the following page. Net OPEB expense, calculated as annual OPEB cost less the pay-as-you-go amount contributed to the CERBT Program, is included in operating expenses in the accompanying financial statements. The Net OPEB obligation is shown as a separate item in noncurrent liabilities section in the accompanying financial statements.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Funding Policy and Annual OPEB Cost (continued)

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

Annual required contribution	\$ 10,062,209
Interest on net OPEB obligation	3,093,053
Amortization of net OPEB obligation	<u>(3,422,818)</u>
Annual OPEB cost	9,732,444
Contributions Made	<u>(17,562,209)</u>
Decrease in Net OPEB obligation	(7,829,765)
Net OPEB obligation, beginning of year	<u>51,636,947</u>
Net OPEB obligation, end of year	<u>\$ 43,807,182</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2015 through 2017 are shown in the following table.

<u>Plan</u>	<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Retired Employees/Elected	06/30/15	\$ 8,568,000	\$ 8,842,531	103.2%	\$ 51,927,505
Officials Healthcare and Life	06/30/16	9,478,577	9,769,135	103.1%	51,636,947
Insurance Plans	06/30/17	9,730,444	17,562,209	180.5%	43,807,182

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2015, the plan's most recent actuarial valuation date, is shown in the following table. Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial accrued liability	\$ 100,353,312
Actuarial value of plan assets	<u>(14,204,337)</u>
Unfunded actuarial accrued liability	86,148,975
Funded ratio	14.2%
Covered payroll	\$ 47,804,000
Unfunded actuarial accrued liability as a percentage of covered payroll	180.2%

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 — Postemployment Benefits Other Than Pensions (Continued)

Funded Status and Funding Progress (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial valuations involve the use of future estimates that are subject to continual revision. These calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation date	6/30/2015		
Actuarial cost method	Entry Age Normal		
Amortization method	Level Percent of Payroll		
Remaining amortization method	24 years as of valuation date		
Actuarial assumptions:			
Prefunding	100% of Annual Required Contribution		
Investment rate of return	7.00%		
Payroll growth	3.00%		
Healthcare cost trend rate:			
<u>Year</u>	<u>PPO</u>	<u>HMO</u>	<u>PEMHCA</u>
2015	Actual	Actual	Actual
2016	Actual	Actual	Actual
2017	7.0%	6.5%	4.0%
2018	6.5%	6.0%	4.0%
2019	6.0%	5.5%	4.0%
2020	5.5%	5.0%	4.0%
2021+	5.0%	5.0%	4.0%
Plan participants	<u>Active</u>	<u>Retired</u>	<u>Total</u>
	619	360	979

Initial unfunded liabilities are amortized over a fixed (closed) 30-year period. This period was restarted for the June 30, 2008 valuation. When the amortization period reaches 15 years, new gains and losses will be amortized over a rolling (open) 15-year period and plan and assumption changes will be amortized over a fixed (closed) 20-year-year period.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 — Restricted and Unrestricted Net Position

Restricted Net Position

Net Position restricted for debt service/covenants represent constraints required by the District’s Master Resolution and third party general obligation bondholders.

Net Position restricted for construction represent constraints on legally restricted funds received and unspent from developers as required by State law.

Unrestricted Net Position

As required by GASB Statement No. 34, net position has been classified according to guidelines established for restricted net position. The unrestricted net position, although not legally restricted, has been established pursuant to Board Resolution No. 3359 and is primarily composed of reserves for various purposes.

NOTE 10 — Commitments

Construction Contracts

The District is committed to approximately \$59,021,235 of open construction contracts as of June 30, 2017. The contracts with the largest remaining balances include:

	<u>Contract Amount</u>	<u>Balance To Complete</u>
TVRWRF 23 MGD Expansion	\$ 75,063,070	\$ 45,842,670
Perris and Elder Booster Station	5,557,121	5,344,122
Audie Murphy Road Sewage Lift Station	2,496,140	2,104,263
Moreno Valley Sewer Improvements	1,859,433	1,745,500
La Piedra Recycled Water Pipeline	1,540,885	1,406,730
Redlands/Hemlock Booster Sta. & Pipe	4,260,644	419,870
Paradise Meadows 5.0 MG Tank-Rebid	<u>3,262,993</u>	<u>327,519</u>
TOTAL	<u>\$ 94,040,286</u>	<u>\$ 57,190,674</u>

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and flooding for which the District maintains various insurance programs. The District has entered into contracts to oversee and administer these programs.

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$30,000,000 per occurrence with a \$1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any non-incremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a workers compensation claim stipulated was reached, which included a present value of \$5.3 million in future payments calculated using a discount rate of 3 percent over 30 years. Changes in claims payable for the years ended June 30 are as follows:

	Beginning Balance			Ending Balance	Due Within
	June 30, 2016	Additions	Deletions	June 30, 2017	One Year
General Liability	\$ 290,790	\$ 265,186	\$ (204,441)	\$ 351,535	\$ 351,535
Workers Compensation	6,898,366	928,114	(954,239)	6,872,241	1,500,000
	<u>\$ 7,189,156</u>	<u>\$ 1,193,300</u>	<u>\$ (1,158,680)</u>	<u>\$ 7,223,776</u>	<u>\$ 1,851,535</u>

	2017	2016
Unpaid claims, beginning	\$ 7,189,156	\$ 7,241,082
Incurring claims and changes in estimates	1,193,300	1,314,965
Claim Payments	<u>(1,158,680)</u>	<u>(1,366,891)</u>
Unpaid claims, ending	<u>\$ 7,223,776</u>	<u>\$ 7,189,156</u>

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2016 to 2017. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2017 and June 30, 2016. However, the stipulation discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Soboba Settlement Act

The District is a party to the Soboba Settlement Act (Act). This Act was signed into Law by the President of the United States of America on July 31, 2008 and approved the Settlement Agreement between the Soboba Band of Luiseño Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD), the Metropolitan Water District of Southern California (MWD), and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of Lake Hemet by the LHMWD. Notice regarding the statement of findings for the act was published in the Federal Register on November 28, 2011 and the Settlement Agreement became enforceable.

The Settlement Agreement provides that:

- The Tribe shall have a senior rights to 9,000 acre feet of water each year;
- The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
- The District shall contract with MWD for a long term water supply agreement to bring 7,500 acre feet of additional imported settlement water into the area each year to meet the current and future needs;
- The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
- The groundwater management plan is to include arrangements between the municipal pumpers in the area (LHMWD, the cities of Hemet and San Jacinto, and the District) regarding limitations on pumping from the groundwater basin;
- The federal government shall provide some funding for compliance with the agreement; and,
- MWD and the District will transfer land that each agency owns to the Tribe in full satisfaction of the tribe's damages because of construction of the San Jacinto Tunnel.

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP (while the 2008H COP has been refunded, it does not change the Soboba repayment schedule) and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Soboba Settlement Act (continued)

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a groundwater management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment settlement water and bill the agencies directly on behalf of the Watermaster. The District recorded a \$958,232 receivable from the agencies on behalf of the Watermaster for outstanding billings of imported settlement water deliveries as of June 30, 2017.

Due to favorable weather and snow pack conditions during early calendar year 2016, an abundance of water supply was available for recharge later in the year. A total of 12,656 acre feet of water was imported for recharge, meeting the annual settlement obligation of 7,500 acre feet and reducing the outstanding obligation of undelivered 2014 settlement water from 3,746 acre feet to zero, also reducing the outstanding obligation of undelivered 2015 settlement water from 7,500 to 6,050 acre feet. Due to returning favorable weather and snowpack conditions in early calendar year 2017, a total of 8,068 acre feet of water was imported for recharge through June 30, 2017, meeting the annual settlement obligation of 7,500 acre feet and reducing the outstanding obligation of undelivered 2015 settlement water from 6,050 acre feet at December 31, 2016 to 5,482 acre feet at June 30, 2017. The District's share of imported settlement water recorded in Fiscal Year 2017 was 6,374 acre feet.

In June 2013, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals. The District recorded \$5,663,910 and \$2,602,072 in water inventory for the fiscal years ended June 30, 2017 and June 30, 2016, respectively. The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported settlement water valued at purchased cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal year ended June 30, 2017.

	Beginning Balance			Ending Balance
	June 30, 2016	Additions	Reductions	June 30, 2017
Acre feet	73,399	14,695	(11,153)	76,941
Dollar value	\$ 2,602,072	\$ 3,457,225	\$ (395,387)	\$ 5,663,910

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 — Commitments (Continued)

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bondholders. The Special Funding District Bonds outstanding at June 30, 2017 was \$200,785,480. These are not included in the District's financial statements.

NOTE 11 — Contingencies

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

NOTE 12 — Santa Ana Watershed Project Authority

The District became a member of the Santa Ana Watershed Project Authority (SAWPA) in September 1984. SAWPA was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies. The purpose of SAWPA is to undertake projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Commission, consisting of one member from each of the five-member agencies; an alternate from each member agency is also designated. The Commission members select a Commissioner and an alternate.

According to the latest available audited financial statements, as of June 30, 2016 SAWPA had total assets of \$175,164,843 and total net assets of \$67,167,745. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

NOTE 13 — Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2017, the amount of refundable deposits was \$19,617,294. When a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

**EASTERN MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 — Subsequent Events

In August 2017, the District received a \$22.5 million Proposition I Groundwater grant award from the State Water Resources Control Board. The grant will fund the \$41 million Perris II Reverse Osmosis Treatment Facility Project, a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines and additional treatment trains at the RO treatment facilities. The award is for construction of the first phase of the project.

In July 2017, the District received the fully executed funding agreement from the State Water Resources Control Board for the \$120 million Recycled Water Supply Optimization Program Project. The State funding total of \$95.3 million includes an anticipated \$15 million Proposition 1 grant award and an \$80.3 million State Revolving Fund loan. The Recycled Water Supply Optimization Project, which will expand the District's recycled water portfolio, includes the Temecula Valley Regional Water Reclamation Facility expansion, the Reach 4 Recycled Water Booster Station and Phase II of the Solar Photovoltaic Renewable Energy Initiative. The project is estimated to be completed in September 2019.



REQUIRED
SUPPLEMENTARY INFORMATION

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**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**Schedule of Changes in Net Pension Liability and Related
Ratios During the Measurement Period
Last Ten Fiscal Years ***

Measurement Period	<u>2015-2016</u>	<u>2014-2015</u>	<u>2013-2014</u>
Total Pension Liability			
Service Cost	\$ 7,843,422	\$ 7,679,279	\$ 7,775,568
Interest	27,711,744	26,241,865	24,817,574
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(377,219)	(117,683)	-
Changes of Assumptions	-	(6,714,237)	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(15,077,250)</u>	<u>(13,746,546)</u>	<u>(13,419,729)</u>
Net Change in Total Pension Liability	20,100,697	13,342,678	19,173,413
Total Pension Liability- Beginning	<u>366,239,154</u>	<u>352,896,476</u>	<u>333,723,063</u>
Total Pension Liability- Ending (a)	<u>\$ 386,339,851</u>	<u>\$ 366,239,154</u>	<u>\$ 352,896,476</u>
Plan Fiduciary Net Position			
Contributions- Employer	\$ 8,782,080	\$ 8,161,529	\$ 7,786,103
Contributions- Employee	4,187,293	4,204,174	4,510,815
Net Investment Income	1,420,440	6,028,932	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(15,077,250)	(13,746,546)	(13,419,729)
Net Plan to Plan Resource Movement	-	-	-
Administrative Expense	<u>(164,570)</u>	<u>(303,937)</u>	<u>-</u>
Net Change in Fiduciary Net Position	(852,007)	4,344,152	38,981,079
Plan Fiduciary Net Position- Beginning	<u>270,031,488</u>	<u>265,687,336</u>	<u>226,706,257</u>
Plan Fiduciary Net Position- Ending (b)	<u>\$ 269,179,481</u>	<u>\$ 270,031,488</u>	<u>\$ 265,687,336</u>
Plan Net Pension Liability- Ending (a)- (b)	<u>\$ 117,160,370</u>	<u>\$ 96,207,666</u>	<u>\$ 87,209,140</u>
Pension Liability	69.67%	73.73%	75.29%
Covered Employee Payroll	\$ 51,405,543	\$ 50,202,213	\$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	227.91%	191.64%	180.99%

*Fiscal Year 2015 was the first year of implementation, therefore, only three years are shown above.

Notes To Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies to voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Schedule of Pension Plan Contributions
Last Ten Fiscal Years*

	<u>2016-2017</u>	<u>Fiscal Year 2015-2016</u>	<u>2014-2015</u>
Actuarially Determined Contribution	\$ 9,699,290	\$ 8,782,080	\$ 8,160,464
Contributions in Relation to the Actuarially Determined Contribution	(9,699,290)	(8,782,080)	(8,160,464)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Employee Payroll	 \$ 53,441,059	 \$ 51,405,543	 \$ 50,202,213
 Contributions as a Percentage of Covered Employee Payroll	 18.15%	 17.08%	 16.26%

*Fiscal Year 2015 was the first year of implementation, therefore, only three years are shown above.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2014 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	Level Percent of Payroll ¹
Asset Valuation Method	Market Value ¹
Inflation	2.75%
Salary Increase	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50%, net of Pension Plan Investment Expenses
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Pre-retirement and Post-retirement mortality rates include five years of projected mortality improvement using Scale AA published by the Society of Actuaries.

¹For details, see June 30, 2014 Funding Valuation Report

**EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

OPEB Funding Progress

The following table (dollar amounts in millions) shows a three-year history for the funded status of the District's agent multiple-employer defined benefit OPEB plan. The information reflects the most recent valuation and the previous biennial valuation.

Fiscal Year Impacted	Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Actuarial Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Payroll
06/30/13	06/30/11	\$ 130.1	\$ 2.7	\$ 127.5	2.0%	\$ 49.2	259.1%
06/30/14	06/30/13	94.7	6.9	87.8	7.0%	51.5	170.5%
06/30/15	06/30/15	100.4	14.2	86.1	14.2%	47.8	180.2%

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Statistical Section

This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes disclosures, and required supplementary information says about the District's overall financial health.

CONTENTS

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

OPERATING INFORMATION

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

SOURCES

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT NET POSITION BY COMPONENT LAST TEN FISCAL YEARS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015¹</u>	<u>2016</u>	<u>2017</u>
Net investment in capital assets	\$ 1,097,667,937	\$ 1,084,747,657	\$ 1,153,155,186	\$ 1,182,870,831	\$ 1,231,275,509	\$ 1,239,753,130	\$ 1,300,393,466	\$ 1,370,476,337	\$ 1,403,875,420	\$ 1,338,331,638
Restricted for debt service/covenants	56,443,385	58,248,958	65,090,658	65,433,313	64,333,290	73,268,230	70,625,613	74,689,785	80,348,698	71,207,358
Restricted for construction	133,617,326	169,061,541	150,977,362	127,083,266	99,513,601	56,375,249	45,199,054	40,347,436	38,265,888	60,632,573
Unrestricted	<u>101,896,457</u>	<u>120,482,286</u>	<u>129,229,640</u>	<u>136,478,455</u>	<u>126,867,540</u>	<u>148,512,588</u>	<u>134,353,793</u>	<u>(7,842,690)</u>	<u>(1,974,861)</u>	<u>62,360,074</u>
Total net position	<u>\$ 1,389,625,105</u>	<u>\$ 1,432,540,442</u>	<u>\$ 1,498,452,846</u>	<u>\$ 1,511,865,865</u>	<u>\$ 1,521,989,940</u>	<u>\$ 1,517,909,197</u>	<u>\$ 1,550,571,926</u>	<u>\$ 1,477,670,868</u>	<u>\$ 1,520,515,145</u>	<u>\$ 1,532,531,643</u>
% Increase	5.1%	3.1%	4.6%	0.9%	0.7%	-0.3%	2.2%	-4.7%	2.9%	0.8%

Note:

¹ The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$103,259,883).

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CHANGES IN NET POSITION LAST TEN FISCAL YEARS

Fiscal Year	Operating Revenues		Operating Expenses		Operating Loss	Nonoperating Revenues/ (Expenses) ¹	Income Before Capital Contributions	Capital Contributions ²	Change in Net Position
	Water	Wastewater	Water	Wastewater					
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,462,273	96,301,243	(62,078,522)	51,691,692	(10,386,830)	49,369,637	38,982,807
2011	102,009,545	67,114,654	137,981,887	98,467,509	(67,325,197)	41,208,043	(26,117,154)	39,530,173	13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729
2015	117,295,152	83,513,268	162,871,146	116,781,896	(78,844,622)	49,992,435	(28,852,187)	59,211,012	30,358,825
2016	112,457,426	93,833,665	154,989,658	121,778,812	(70,477,379)	75,675,617	5,198,238	37,646,039	42,844,277
2017	120,870,937	100,328,285	167,605,351	124,278,288	(70,684,418)	61,307,368	(9,377,050)	21,393,548	12,016,498

Notes:

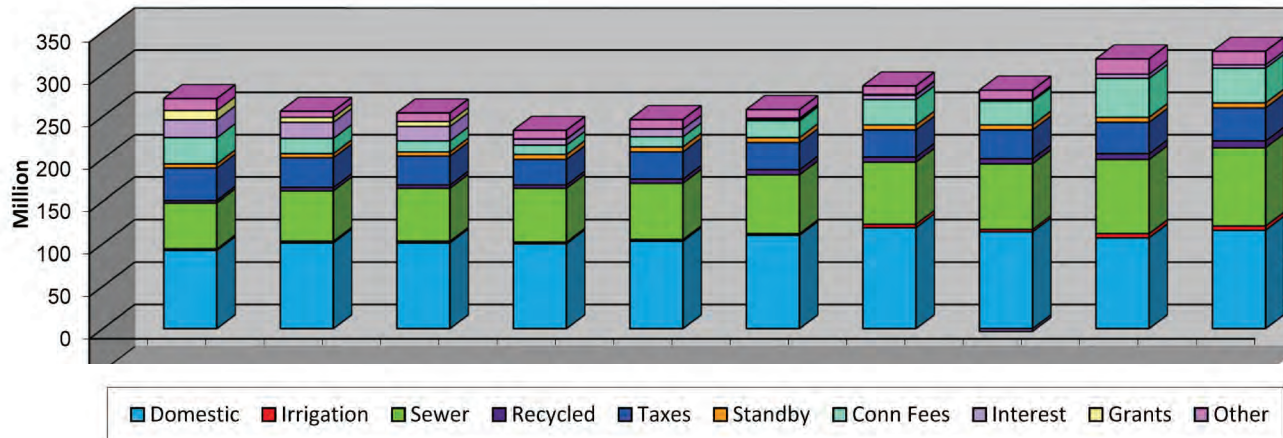
¹ Total operating and capital grant revenues are included in non-operating revenues and expenses prior to 2010. Beginning in fiscal year 2010, capital grants are reported in capital contributions.

² Fluctuations in contributed capital are due to the volume of construction activity and project close outs in a fiscal year. Lower construction activity is reflected in fiscal years 2008, 2009 and 2011. Increased developer project close-outs are reflected in fiscal years 2010, 2012, 2014 and 2015.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT REVENUES BY SOURCE LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total	Sewer Service Charges	% of Total	Recycled Water Sales	% of Total	Taxes & Assmnts	% of Total	Standby Assmnts	% of Total	Connect Fees	% of Total	Interest Income	% of Total	Grants ¹	% of Total	Other	% of Total	Total Revenues
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	100,967,796	38.9%	2,045,633	0.8%	58,889,788	22.7%	3,722,130	1.4%	35,102,975	13.5%	5,015,076	1.9%	17,789,045	6.9%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	100,699,778	39.8%	2,047,253	0.8%	61,885,298	24.5%	4,052,665	1.6%	33,559,211	13.3%	5,246,008	2.1%	13,010,929	5.1%	16,028,408	6.3%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	100,198,290	42.8%	1,811,255	0.8%	62,609,731	26.8%	4,504,923	1.9%	30,354,685	13.0%	5,569,818	2.4%	10,815,294	4.6%	7,553,352	3.2%	517,888	0.2%	10,117,631	4.3%	234,052,867
2012	103,226,203	41.9%	1,515,039	0.6%	65,983,462	26.8%	5,135,186	2.1%	31,730,750	12.9%	5,600,661	2.3%	12,150,826	4.9%	9,208,523	3.7%	373,285	0.2%	11,533,511	4.7%	246,457,446
2013	110,468,194	42.8%	1,988,610	0.8%	68,957,128	26.7%	5,676,043	2.2%	32,555,228	12.6%	5,635,153	2.2%	20,364,185	7.9%	831,935	0.3%	2,052,613	0.8%	9,579,321	3.7%	258,108,410
2014	118,695,153	41.5%	4,029,022	1.4%	73,100,086	25.6%	6,125,420	2.1%	32,578,837	11.4%	5,700,591	2.0%	30,149,861	10.5%	4,923,583	1.7%	969,474	0.3%	9,622,670	3.4%	285,894,697
2015	113,859,511	40.8%	3,435,641	1.2%	77,120,505	27.7%	6,392,763	2.3%	34,100,580	12.2%	5,735,466	2.1%	28,307,625	10.1%	(2,593,627)	-0.9%	-	0.0%	10,834,613	3.9%	278,911,003
2016	107,319,708	33.7%	5,137,718	1.6%	87,184,856	27.4%	6,648,809	2.1%	36,876,790	11.6%	5,784,242	1.8%	45,715,784	14.4%	5,056,957	1.6%	-	0.0%	18,313,734	5.8%	318,038,598
2017	115,796,435	35.4%	5,074,502	1.5%	92,536,116	28.3%	7,792,169	2.4%	38,578,024	11.8%	5,831,357	1.8%	40,565,197	12.4%	4,802,069	1.5%	-	0.0%	16,439,820	5.0%	327,415,689



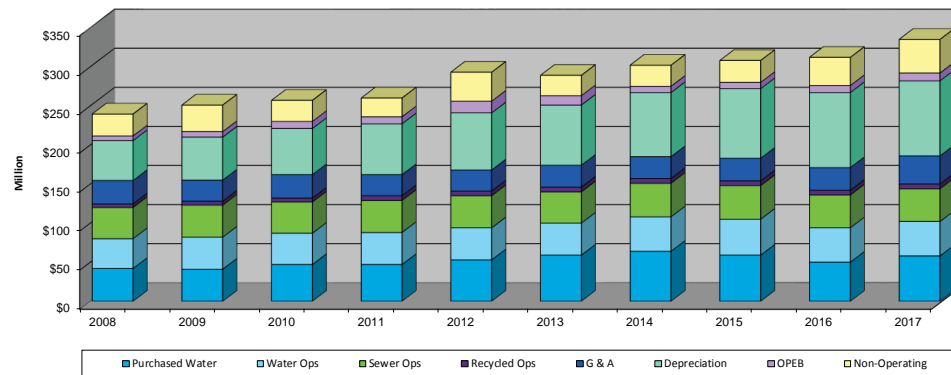
Notes:

¹ Operating and capital grants are reported in grants revenue for fiscal years 2008 and 2009. Beginning in fiscal year 2010, capital grants are reported in capital contributions on the Statement of Revenue & Expenditures.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT EXPENSES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin ¹	% of Total	Depr. & Amort	% of Total	Net OPEB ²	% of Total	Total Non-Operating Expenses ³	% of Total	Total Expenses
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119
2010	46,936,179	18.2%	39,967,447	15.5%	39,657,747	15.4%	5,466,039	2.1%	30,256,670	11.7%	59,347,777	23.0%	9,131,657	3.5%	27,061,214	10.5%	257,824,730
2011	46,489,850	17.9%	41,364,910	15.9%	41,247,883	15.9%	6,103,502	2.3%	26,707,578	10.3%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,170,021
2012	52,697,993	18.0%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276
2015	59,040,009	19.2%	45,691,510	14.8%	42,743,947	13.9%	6,101,759	2.0%	28,677,026	9.3%	88,830,791	28.9%	8,568,000	2.8%	28,110,148	9.1%	307,763,190
2016	50,334,462	16.1%	43,582,087	13.9%	42,095,206	13.5%	6,287,916	2.0%	29,687,364	9.5%	95,302,858	30.5%	9,478,577	3.0%	36,071,890	11.5%	312,840,360
2017	57,512,425	17.1%	44,089,564	13.1%	42,232,322	12.5%	6,064,944	1.8%	36,283,686	10.8%	95,968,255	28.5%	9,732,444	2.9%	44,909,099	13.3%	336,792,739



Notes:

¹ The increase in fiscal year 2017 includes a \$4.6 million increase in unallocated pension expense.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED LAST TEN FISCAL YEARS

Fiscal Year	← Gallons Produced ¹ →				Water					Gallons of Wastewater Treated	Total Direct Rate		
	Purchased	Wells	Desalters	Total	Gallons Consumed			Unbilled			Base Rate ^{2,5}	Usage	
					Domestic	Ag & Irrig	Total	Total	Avg %			Rate ^{3,5}	Sewer ⁴
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,231	3.7%	16,482	10.52	41.52	21.88
2010	23,042	5,555	1,816	30,413	27,001	1,116	28,117	2,296	7.5%	16,436	10.52	46.32	22.73
2011	21,611	5,220	1,943	28,774	25,958	857	26,815	1,959	6.8%	16,805	10.52	48.26	22.90
2012	22,365	5,244	1,783	29,392	27,154	690	27,844	1,548	5.3%	16,425	10.52	47.50	23.96
2013	23,709	5,683	1,909	31,301	28,078	860	28,938	2,363	7.6%	16,363	10.52	49.92	24.72
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	16,389	10.77	52.50	25.90
2015	22,246	3,789	2,427	28,462	26,040	1,449	27,489	971	3.4%	16,334	11.16	53.76	27.01
2016	19,016	4,820	2,285	26,121	21,608	2,086	23,695	2,426	9.3%	15,483	11.59	57.56	30.12
2017	21,366	5,125	2,194	28,685	23,618	1,951	25,569	3,117	10.9%	15,812	11.83	56.70	31.47

Notes:

The Information reported above does not include recycled water.

1. Gallons are presented in millions.
2. Rate shown is based on the daily fixed charge for meters up to and including 1".
3. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
4. Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.
5. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT WATER AND SEWER RATES LAST TEN FISCAL YEARS

Fiscal Year	2008	2009 ³	2010	2011	2012	2013	2014	2015	2016	2017
Water Rates										
Monthly base rate (meter size)										
<=1"	\$ 10.04	\$ 10.52	\$ 10.52	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77	\$ 11.16	\$ 11.62	\$ 11.83
1 1/2"	15.06	27.68	27.68	27.68	27.76	27.68	28.29	29.50	30.50	31.03
2"	20.08	51.40	51.40	51.40	51.55	51.40	52.62	54.45	56.73	57.79
3"	40.15	171.25	171.25	171.25	171.72	171.25	175.20	181.59	189.10	192.54
4"	50.19	270.40	270.40	270.40	271.15	270.40	276.49	286.83	298.60	303.86
6"	70.26	505.53	505.53	505.53	506.91	505.53	517.08	536.25	558.15	568.18
8"	80.30	633.28	633.28	633.28	635.01	633.28	647.88	671.60	699.06	712.05
Usage rate (per billing unit)¹	\$ 36.38	\$ 41.52	\$ 46.32	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50	\$ 53.76	\$ 57.56	\$ 56.70
Sewer Rates (avg per month)²	\$ 20.58	\$ 21.88	\$ 22.73	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90	\$ 27.01	\$ 30.12	\$ 31.47

Notes:

The Information reported above does not include recycled water.

Rates are adopted by the Board of Directors annually and become effective on the date of adoption or per Board direction.

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.

2. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as a weighted average monthly rate per customer.

3. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CUSTOMERS BY WATER SERVICE TYPE LAST TEN FISCAL YEARS

← Treated and Untreated Water →

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Public Agency</u>	<u>Construction & Temporary</u>	<u>Irrigation</u>	<u>Agricultural</u>	<u>Total</u>	<u>Recycled</u>	<u>Total</u>
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881
2011¹	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081
2014	134,656	3,347	136	679	426	2,412	721	142,377	316	142,693
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611
2016	138,247	3,472	137	663	432	2,484	790	146,225	379	146,604
2017	140,332	3,573	136	645	449	2,526	812	148,473	420	148,893

Treated and Untreated Water Service Type by Customer Category Fiscal Year 2017

	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Public Agency</u>	<u>Construction & Temporary</u>	<u>Irrigation</u>	<u>Agricultural</u>	<u>Total</u>
Domestic	140,332	3,571	136	614	449	2,523	696	148,321
Agricultural	-	2	-	4	-	3	116	125
Wholesale	-	-	-	27	-	-	-	27
Total	140,332	3,573	136	645	449	2,526	812	148,473

Note:

1. Decreased amounts are due to level of bank-owned homes relating to the economic downturn and less construction.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST DOMESTIC WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Western Municipal Water District ^{1,2}	1,619	\$ 2,000,233	18.2%
2 City of Perris ¹	1,603	1,981,658	18.1%
3 Moreno Valley Unified School District	957	1,254,360	11.4%
4 City of Moreno Valley	749	1,143,781	10.4%
5 Valley-Wide Recreation Park	695	1,073,558	9.8%
6 Val Verde Unified School District	567	801,867	7.3%
7 County of Riverside	557	774,543	7.1%
8 Stonegate at Towngate	515	670,723	6.1%
9 City of Murrieta	422	659,265	6.0%
10 Country Meadows II Assoc.	372	603,544	5.5%
Total	<u>8,056</u>	<u>\$ 10,963,532</u>	
Total domestic water sales	72,480	\$ 115,796,435	
Percentage of total	11.1%	9.5%	

Notes:

Data includes potable water sales to all non-agricultural customers.

1. Wholesale customer.

2. Sales relate to Murrieta County Water District customers. This water district was purchased by the Western Municipal Water District.

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Metropolitan Water District	195	\$ 252,714	22.9%
2 C & R Farms	406	251,316	22.8%
3 Kevin and Pauline Doan	151	192,726	17.5%
4 HP Mobile Estates	60	76,171	6.9%
5 Expressway Dairy	104	73,528	6.7%
6 New Lakeview Farms LLC	46	58,917	5.3%
7 Pastime Lakes Dairy	82	57,800	5.2%
8 Essie Bootsma	89	52,558	4.8%
9 Demler Egg Ranch	67	44,966	4.1%
10 Brothers Nursery	35	41,008	3.7%
Total	<u>1,235</u>	<u>\$ 1,101,704</u>	
Total ag. & irrigation water sales	5,987	\$ 5,074,502	
Percentage of total	20.6%	21.7%	

Notes:

The District has a number of irrigation water rates depending upon service area and whether deliveries are schedule or unscheduled.

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST RECYCLED WATER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Water Sales in Acre Feet</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Valley Wide Recreation Park	663	\$ 298,126	13.6%
2 Rancho Casa Loma	3,902	289,094	13.2%
3 Agri Empire	2,321	266,308	12.2%
4 A G Sod Farms	1,997	223,003	10.2%
5 America Greenworld Inc	632	214,005	9.8%
6 Dept of Fish and Wildlife	3,727	189,363	8.7%
7 Hemet Golf Club Landmark	368	183,977	8.4%
8 The Golf Club at Rancho California	430	181,545	8.3%
9 Marvo Holstein	1,758	181,494	8.3%
10 Don Bean Farms	1,377	159,620	7.3%
Total	<u>17,175</u>	<u>\$ 2,186,535</u>	
Total recycled water sales	29,872	\$ 7,792,169	
Percentage of total	57.5%	28.1%	

Notes:

The District has a number of recycled water rates depending upon size of pipe, agricultural or non-agricultural usage and level of treatment.

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT LARGEST SEWER CUSTOMERS AS OF JUNE 30, 2017

<u>Customer Name</u>	<u>Annual Revenues</u>	<u>Percentage</u>
1 Pechanga Resort and Casino	\$ 799,111	29.8%
2 New Highland Meadows	560,551	20.9%
4 Murrieta Valley Unified School District	214,901	8.0%
5 Moreno Valley Unified School District	177,662	6.6%
6 Hemet Unified School District	163,162	6.1%
7 Iris Landing HOA	162,700	6.1%
8 Waterstone at Murrieta Apartments	160,471	6.0%
9 Casabella Owner's Association	155,038	5.8%
10 Westwind Enterprises	154,551	5.8%
3 Stonegate at Towngate	135,576	5.1%
Total	\$ 2,683,722	
Total sewer revenue	\$ 92,536,116	
Percentage of total revenue	2.9%	

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT SUMMARY OF IMPORTED WATER RATES LAST TEN FISCAL YEARS (dollars per acre-foot)

Rates Effective Beginning January	Full Service Domestic		Interim Agricultural Program ¹		Long Term Seasonal Storage		
	Treated	Untreated	Treated	Untreated	Treated	Untreated	
2008	Tier 1	508	351	394	261	390	258
	Tier 2	606	449	n/a	n/a	n/a	n/a
2009	Tier 1	579	412	465	322	436	294
	Tier 2	695	528	n/a	n/a	n/a	n/a
2010	Tier 1	701	484	615	416	558	366
	Tier 2	811	594	n/a	n/a	n/a	n/a
2011	Tier 1	744	527	687	482	601	409
	Tier 2	869	652	n/a	n/a	n/a	n/a
2012	Tier 1	794	560	765	537	651	442
	Tier 2	920	686	n/a	n/a	n/a	n/a
2013	Tier 1	847	593	n/a	n/a	n/a *	n/a *
	Tier 2	997	743	n/a	n/a	n/a	n/a
2014	Tier 1	890	593	n/a	n/a	n/a *	n/a *
	Tier 2	1,032	735	n/a	n/a	n/a	n/a
2015	Tier 1	923	582	n/a	n/a	n/a *	n/a *
	Tier 2	1,055	714	n/a	n/a	n/a	n/a
2016	Tier 1	942	594	n/a	n/a	n/a *	n/a *
	Tier 2	1,076	728	n/a	n/a	n/a	n/a
2017	Tier 1	979	666	n/a	n/a	n/a *	n/a *
	Tier 2	1,073	760	n/a	n/a	n/a	n/a

Notes:

1. The Interim Agricultural Water program was discontinued after 2012.

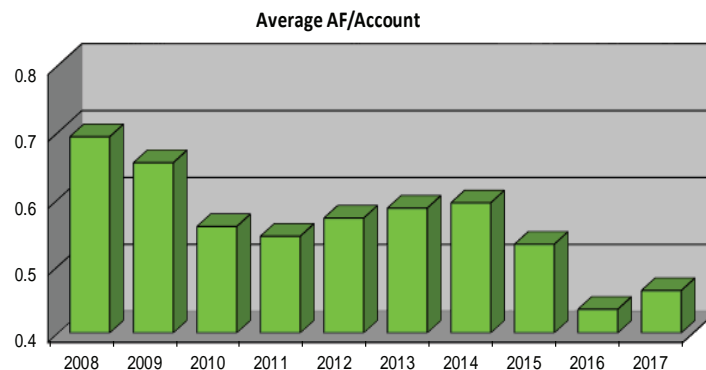
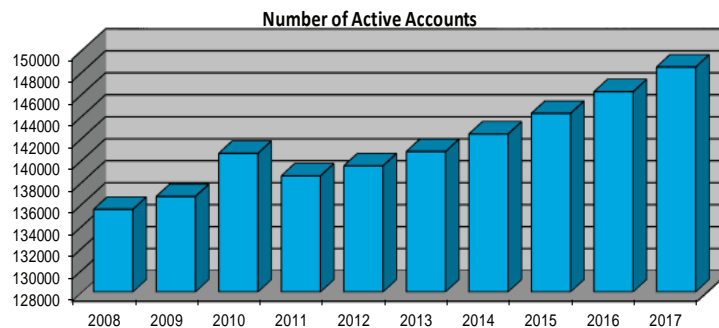
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT ANNUAL DOMESTIC CONSUMPTION (AF) LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Usage (AF)</u>	<u>Active Accounts</u>	<u>Average AF per Account</u>
2008	93,956	135,522	0.69
2009	89,448	136,689	0.65
2010	78,621	140,615	0.56
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44
2017	68,813	148,473	0.46



Notes:

Amounts exclude wholesale accounts.

Several factors may impact fluctuations in the average AF per account each year including conservation efforts, the level of bank-owned homes relating to the economic downturn, and changes in weather patterns.

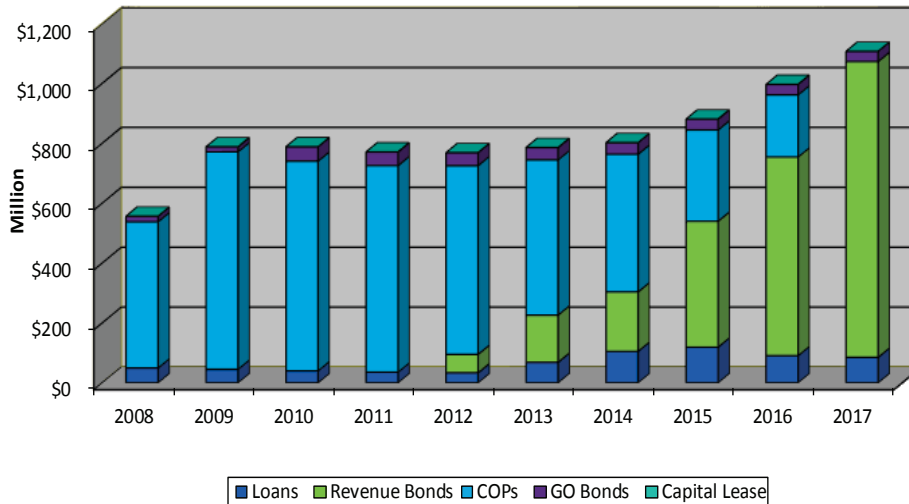
The decrease in average AF per account for beginning 2008 is mainly due to lower usage relating to conservation efforts and cooler weather patterns.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT RATIO OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS

*See Debt Footnotes for dollar amounts

Fiscal Year	Loans	Revenue Bonds ¹	Certificates of Participation ¹	General Obligation Bonds	Capital Lease	Total	Percentage of Personal Income ²	Debt per Capita ³
2008	49,630,496	-	488,460,000	18,140,000	-	556,230,496	0.91%	777
2009	45,407,198	-	726,270,000	16,260,000	-	787,937,198	1.23%	1,086
2010	40,279,228	-	700,311,094	47,672,284	-	788,262,606	1.21%	1,068
2011	35,818,082	-	689,723,765	45,481,394	-	771,023,241	1.22%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	-	768,475,959	1.18%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	-	785,686,425	1.13%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	55,072	801,932,757	1.11%	1,022
2015	119,352,359	420,407,712	305,016,307	35,896,296	41,574	880,714,248	1.15%	1,108
2016	90,787,233	663,582,542	207,389,271	34,920,903	23,752	996,703,701	1.27%	1,240
2017	85,227,888	987,759,455	-	33,905,509	12,782	1,106,905,634	1.32%	1,356



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

See the schedule of Demographic and Economic Statistics for personal income and population data.

¹ In fiscal year 2017, the District issued six refunding revenue bonds to redeem all outstanding certificates of participation and five refunding revenue bonds. A new series revenue bond was issued to finance the construction of water and sewer capital improvements.

² Based upon Riverside County personal income amounts. The District is located in the County of Riverside.

See the personal income amounts on the Demographic and Economic Statistics schedule.

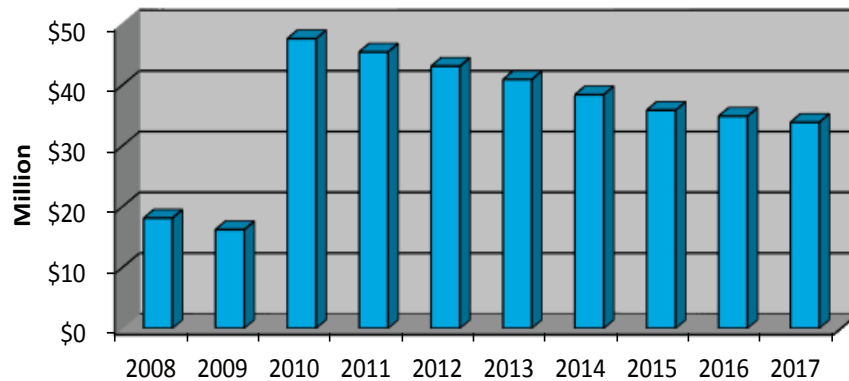
³ Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT RATIO OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds ¹	Assessed Value ²	Percentage of Assessed Value	Debt per Capita ³
2008	18,140,000	68,127,605,656	0.03%	25
2009	16,260,000	67,617,348,347	0.02%	22
2010	47,672,284	56,743,387,948	0.08%	65
2011	45,481,394	54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53
2014	38,446,800	55,926,804,094	0.07%	49
2015	35,896,296	61,313,471,497	0.06%	45
2016	34,920,903	66,226,873,815	0.05%	43
2017	33,905,509	70,005,613,492	0.05%	42

Total Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

See the schedule of Demographic and Economic Statistics for population data.

¹ Beginning 2010, amounts shown include net bond premium/discount.

² Bonds are issued by improvement district, but the amounts shown are for the District's entire service area. Beginning 2016, included District No. 04-5408: EMWD Detachment#2 in the assessed value.

³ Based upon approximate population of the District's entire service area. See the Demographic and Economic Statistics schedule for amounts.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT PARITY DEBT SERVICE COVERAGE FISCAL YEARS 2008 - 2017

	2008	2009 ¹	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING REVENUES:										
Water sales	\$ 94,135,642	\$ 103,013,429	\$ 102,747,031	\$ 102,479,984	\$ 104,741,242	\$ 110,468,195	\$ 122,724,175	\$ 117,295,152	\$ 112,457,426	\$ 120,870,937
Sewer service sales	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505	87,184,856	92,536,116
Recycled water	2,564,656	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763	6,648,809	7,792,169
Total operating revenues	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420	206,291,091	221,199,222
OPERATING EXPENSES:										
Water purchases	41,653,430	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009	50,334,462	57,512,425
Water operations	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087	44,089,564
Sewer operations	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122	48,297,266
Other Post Employment Benefits (OPEB) Contribution ²	-	-	-	-	2,620,589	5,740,000	6,123,000	8,568,000	9,478,577	9,732,444
General & administrative	30,138,792	27,471,196	30,256,670	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026	29,687,364	36,283,686
Total operating expenses	155,287,611	155,534,642	162,284,082	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251	181,465,612	195,915,385
OPERATING INCOME (LOSS)	(4,179,141)	10,090,705	6,400,912	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169	24,825,479	25,283,837
NON-OPERATING REVENUES:										
Property taxes - general purpose	34,528,767	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713	32,271,305	33,971,127
Standby charges	4,868,154	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242	5,831,357
Water and sewer connection fees	30,706,687	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625	45,715,784	40,565,197
Interest income ³	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643	3,405,039	4,733,897
Grant revenues	11,261,996	6,466,818	6,063,577	16,137,906	22,926,555	12,503,511	5,214,780	3,830,382	2,823,624	6,164,479
Other income/(expense)	8,812,367	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126	829,006	2,859,968	(3,494,598)
Total non-operating revenues	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160	72,638,836	92,859,962	87,771,459
Net Water and Sewer Revenues for Debt Coverage	106,127,678	92,985,455	77,365,069	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004	117,685,441	113,055,296
PARITY OBLIGATION DEBT SERVICE:										
Parity Obligation Payments (COP/Bonds)	28,708,962	34,779,234	32,958,765	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369	22,545,830	15,651,578
State Loan Payments	-	5,074,279	5,800,750	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892	-	-
Total Parity Obligation Debt Service	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262	22,545,830	15,651,578
PARITY OBLIGATION DEBT SERVICE COVERAGE	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.5	5.2	7.2
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	50,142,743	95,139,611	97,403,718
SUBORDINATE OBLIGATION DEBT SERVICE	-	-	-	-	-	-	-	2,917,542	20,192,253	28,935,832
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	NA	NA	NA	NA	NA	NA	NA	17.2	4.7	3.4
REMAINING REVENUES	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	47,225,200	74,947,358	68,467,886
TOTAL DEBT SERVICE	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804	42,738,083	44,587,410
ALL-IN DEBT SERVICE COVERAGE	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.3	2.8	2.5

Source: Eastern Municipal Water District

Notes:

1. 2009 amounts were restated for net internal service funds included in other non-operating income rather than general and administrative expense.
2. Beginning FY 2012, OPEB contribution expense was separated from Water and Sewer operating expense.
3. Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN CALENDAR YEARS

<u>Calendar Year</u>	<u>Population¹</u>	<u>Personal Income² (thousands of \$)</u>	<u>Per Capita Personal Income²</u>	<u>Unemployment Rate²</u>
2007	715,664	63,538,333	31,574	6.0%
2008	725,610	66,347,611	31,972	8.5%
2009	737,868	67,367,683	31,932	13.4%
2010	760,128	65,359,484	30,446	14.7%
2011	768,264	66,904,690	30,380	13.6%
2012	776,986	71,213,948	31,828	12.2%
2013	784,834	73,158,724	32,263	10.3%
2014	794,790	75,223,346	32,765	8.2%
2015	803,973	78,852,989	33,867	6.7%
2016	816,411	84,025,987	35,589	6.1%

Notes:

¹ Data is for the District's service area. Amounts for prior years are restated with the most recent available information.

² Data is for the County of Riverside. The District is located within the County. Amounts for prior years are restated for most recent available information.

Sources: State of California Employment Development Department
State of California Department of Finance
U.S. Department of Commerce, Bureau of Economic Analysis

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT PRINCIPAL EMPLOYERS FISCAL YEAR ENDED JUNE 30, 2017

<u>Employer</u>	<u>No. of Employees</u>	<u>Percentage of Total Employment</u>
County of Riverside	22,538	2.3%
University of California, Riverside	8,686	0.9%
March Air Reserve Base	8,500	0.9%
Amazon	7,500	0.8%
Kaiser Permanente Riverside Medical Ctr	5,739	0.6%
Corona-Norco Unified School District	5,399	0.5%
Riverside Unified School District	4,236	0.4%
Pechanga Resort & Casino	4,000	0.4%
Riverside University Health System	3,876	0.4%
Eisenhower Medical Center	<u>3,665</u>	0.4%
Total	<u>74,139</u>	7.6%
Total Employment	<u>983,800</u>	

Notes: Data is for the County of Riverside. The District is located within the County.

Sources: Riverside County Economic Development Agency
State of California Employment Development Department

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT EMPLOYEES BY FUNCTION LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013 ⁴	2014	2015 ⁵	2016	2017
<u>Operations and Maintenance Division</u>										
Water Operations and Distribution	66	63	63	64	64	65	66	61	65	65
Water Reclamation	82	82	87	90	90	86	87	88	87	85
Assets & Facility Management (formerly Maintenance Services)	20	22	17	17	17	15	15	22	19	19
Auto Shop and Fabrication Shop (reassigned)	14	13	14	16	15	16	15	-	-	-
Wastewater Collection	15	14	15	15	13	14	14	15	14	14
Mechanical Services (includes Fab Shop)	27	27	30	30	30	28	29	31	31	31
Electrical Services	21	22	21	22	23	24	24	23	24	22
Pipeline Maintenance (formerly included Building & Grounds)	37	37	35	37	34	34	34	22	22	22
Total Operations & Maintenance Division	282	280	282	291	286	282	284	262	262	258
<u>Engineering Division</u>										
General Engineering ^{1,6}	56	57	55	53	52	43	44	46	42	45
Construction Management and Inspections	39	40	38	39	39	35	33	29	32	30
New Business Development ¹	28	25	25	26	20	17	18	19	21	21
Total Engineering Division	123	122	118	118	111	95	95	94	95	96
<u>Planning and Resources Division</u>										
Planning and Resources ²	17	19	19	19	20	20	19	20	24	24
Environmental and Regulatory Compliance	7	8	8	9	9	9	10	11	12	12
Water Quality and Laboratory	15	15	14	15	15	14	14	12	12	12
Source Control	10	10	8	9	9	9	10	10	10	11
Total Planning and Resources Division	49	52	49	52	53	52	53	53	58	59
<u>Executive and Administration</u>										
Executive and Administration ⁶	10	10	10	10	11	12	12	13	15	16
Public and Governmental Affairs ³	3	2	3	3	11	11	11	12	12	12
Human Resources (formerly included Risk Management)	13	13	13	13	13	11	12	8	6	7
Safety/Risk and Emergency Management	-	-	-	-	-	-	-	4	5	5
Billing/Customer Service	49	49	60	62	58	55	53	56	56	54
Meter Services	25	25	24	24	24	21	19	16	14	13
Finance and Accounting	20	21	21	22	26	22	22	22	22	22
Information Systems	33	33	34	33	34	33	31	30	27	23
Purchasing, Warehouse and Records Management	28	29	26	27	30	28	27	28	28	25
Fleet Services (formerly Auto Shop)	-	-	-	-	-	-	-	11	11	11
Community Involvement ³	9	9	9	8	-	-	-	-	-	-
Total Executive and Administration	190	191	200	202	207	193	187	200	196	188
Total Filled Positions End of Year	644	645	649	663	657	622	619	609	611	601
Total Authorized Positions Start of Year	670	667	676	690	667	636	633	629	631	629
Change in Authorized Positions from Prior Year	Not Available	(3)	9	14	(23)	(31)	(3)	(4)	2	(2)
Number of Vacant Positions as of June 30	26	22	27	27	10	13	10	20	20	28
Vacancy Rate as of June 30	3.9%	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%	3.2%	3.2%	4.5%

Notes:

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

1. The General Engineering departments were reorganized in 2012.

2. The Planning and Resources workgroup was reorganized in 2016.

3. Community Involvement was restructured into Public and Governmental Affairs in 2012.

4. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30, 2012.

5. Organizational changes in March 2015 affected all divisions and eliminated 3 vacant positions.

6. Organizational changes in December 2015 resulted in the movement of staff from General Engineering to Executive and Administration.

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT OPERATING AND CAPITAL INDICATORS LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
POTABLE WATER SYSTEM										
Miles of pipeline:										
transmission and distribution: ¹	2,437	2,444	2,421	2,428	2,430	2,443	2,448	2,463	2,465	2,380
as-built	2,038	2,157	2,260	2,280	2,296	2,366	2,376	2,391	2,399	2,314
construction in progress	399	287	161	148	134	77	72	72	66	66
Number of storage tanks ²	78	77	77	77	77	77	77	77	78	79
Maximum storage capacity (million gallons)	193	193	193	191	191	191	191	191	199	203
Number of active pumping plants	81	84	84	83	83	83	83	83	83	84
Number of active wells:										
domestic	18	18	18	21	21	18	18	18	16	16
desalter ⁶	5	5	7	7	8	7	11	11	12	12
Domestic well production capacity:										
gallons per minute	21,597	21,806	20,361	22,326	22,285	23,292	23,382	19,299	19,604	14,708
million gallons per day	31.1	31.4	29.3	32.1	32.1	33.5	33.7	27.8	28.2	21.2
acre feet per year	0	0	0	0	0	0	0	31,129	31,622	23,725
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	2	2	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	32.0	32.0	32.0	32.0	32.0	36.0	36.0	36.0	36.0	36.0
Number of service connections: ⁷										
active domestic accounts	129,344	131,392	133,810	135,233	136,478	140,653	142,244	144,123	146,098	148,348
active agriculture accounts	140	143	146	124	122	131	133	132	127	125
SEWER SYSTEM										
Miles of sewer lines: ^{1,3}										
as-built	1,721	1,729	1,727	1,736	1,756	1,780	1,799	1,813	1,816	1,790
construction in progress	1,407	1,539	1,607	1,626	1,639	1,725	1,735	1,749	1,772	1,741
Number of treatment plants	314	190	120	110	117	55	64	64	44	49
Number of active pumping plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD) ⁴	56	60	60	60	60	68	68	70	70	69
Average million gallons per day treated	46.2	45.2	45.0	46.0	45.0	44.8	44.9	44.8	42.4	43.3
Percentage of capacity utilized	82%	75%	75%	77%	75%	66%	66%	64%	61%	63%
Number of active lift stations	46	46	46	46	47	48	48	47	46	46
RECYCLED WATER SYSTEM										
Miles of pipeline:										
transmission and distribution: ¹	201	202	199	202	206	213	215	217	217	207
as-built	165	172	178	179	186	196	198	200	208	197
construction in progress	36	30	21	23	20	17	17	17	9	10
Number of active pumping facilities ⁸	17	19	20	20	20	21	24	24	24	24
Maximum storage capacity (acre feet) ⁵	6,764	5,776	5,714	5,714	5,721	5,736	6,184	6,448	6,448	7,571
GENERAL INFORMATION										
Service area (annexed property):										
acres	346,449	346,691	346,732	346,732	346,732	346,745	346,745	346,745	346,808	346,808
square miles	541.3	541.7	541.8	541.8	541.8	541.8	541.8	541.8	541.9	541.9
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.05	10.20	10.47	10.84	11.39	11.31	12.11	12.50	12.25	11.90

- Notes:
1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
 2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
 3. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as0built amount.
 4. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion is 25 MGD was completed in 2014.
 5. Recycled storage decreased in 2009 due to a change in the reporting method to show only tertiary-treated water dedicated to distribution. Prior years included capacity for secondary-treated storage. Decrease in 2010 relates to lower capacity for Winchester ponds due to operational assessments. Increase in 2014 storage is due to more accurate measurements from recent surveys, plus a conversion of some secondary storage to tertiary storage.
 6. Desalter wells formerly inactive were placed back into service during 2014.
 7. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.

Source: Eastern Municipal Water District

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT CUSTOMER ACCOUNT WRITE OFFS AS A PERCENTAGE OF SALES LAST TEN FISCAL YEARS

Fiscal Year	Retail Sales	Write Offs	% of Sales
2008	126,144,814	1,155,769	0.9%
2009	139,863,262	1,386,075	1.0%
2010	142,354,003	1,035,076	0.7%
2011	143,427,078	734,381	0.5%
2012	149,580,286	703,666	0.5%
2013	159,559,632	717,146	0.4%
2014	170,496,733	851,419	0.5%
2015	169,744,235	823,650	0.5%
2016	171,146,902	714,213	0.4%
2017	182,818,310	475,022	0.3%
Total	\$ 1,555,135,255	\$ 8,596,417	0.6%

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

BAD DEBT RESERVES AS A PERCENTAGE OF ACCOUNTS RECEIVABLE LAST TEN FISCAL YEARS

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
2008	9,375,405	690,461	7.4%
2009	10,377,183	838,543	8.1%
2010	9,603,615	678,848	7.1%
2011	11,170,339	610,537	5.5%
2012	13,072,905	676,182	5.2%
2013	14,195,028	842,850	5.9%
2014	13,805,842	850,608	6.2%
2015	9,916,469	609,075	6.1%
2016	10,127,047	324,530	3.2%
2017	11,882,229	215,340	1.8%

Note: Reserves equal accounts over 60 days past due.

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2270 Trumble Road | Perris, CA 92570



APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the relevant document for a full and complete statement of the provisions thereof.

MASTER RESOLUTION

CERTAIN DEFINITIONS OF THE MASTER RESOLUTION

Accreted Values. The term “Accreted Values” means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligations set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

Accreted Value Payment Date. The term “Accreted Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Accreted Value is payable.

Appreciated Value. The term “Appreciated Value” means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Appreciated Value Payment Date. The term “Appreciated Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Appreciated Value is payable.

Assumed Amortization Period. The term “Assumed Amortization Period” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the period of time determined, at the election of the District, pursuant to either paragraph (a) or paragraph (b) below:

- (a) twenty-five (25) years; or
- (b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water and sewer districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

Assumed Interest Rate. The term “Assumed Interest Rate” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the rate per annum determined as

of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii) below:

(i) a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from Federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to Federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or

(ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from Federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water and sewer districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate shall not be less than the rate specified in the "Revenue Bond Index" published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

Bond or Contract or Other Parity Reserve Fund. The term "Bond or Contract or Other Parity Reserve Fund" means any debt service reserve fund established to secure the payment of Bond Payments or Installment Payments or Other Parity Obligation Payments.

Bond Payments. The term "Bond Payments" means the principal and interest payments scheduled to be paid by the District on Bonds.

Bonds. The term "Bonds" means all revenue bonds of the District authorized, executed, issued and delivered by the District under and pursuant to applicable law, the interest and principal and redemption premium, if any, payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Business Day. The term "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of California.

Capital Appreciation Bonds. The term "Capital Appreciation Bonds" means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

Capital Appreciation Certificates. The term "Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Certificates.

Capital Appreciation Parity Obligations. The term "Capital Appreciation Parity Obligations" means Parity Obligations described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Parity Obligations, except Capital Appreciation Bonds and Capital Appreciation Certificates.

Certificate Payment Date. The term "Certificate Payment Date" mean, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

Completion Parity Obligations. The term "Completion Parity Obligations" means any Long-Term Parity Obligations or Interim Parity Obligations incurred or issued by the District for the purpose of financing the completion of a Project for which Long-Term Parity Obligations or Interim Parity Obligations have already been issued or incurred.

Contracts. The term “Contracts” means Installment Sale Agreements, Leases and Contracts of Indebtedness.

Contracts of Indebtedness. The term “Contracts of Indebtedness” means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Convertible Parity Obligations. The term “Convertible Parity Obligations” means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

Credit Enhanced Parity Obligations. The term “Credit Enhanced Parity Obligations” means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

Current Water and Sewer Revenues. The term “Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including (1) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract or Other Parity Reserve Fund or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments or Installment Payments or Other Parity Obligation Payments or is required to be deposited in the Water and Sewer Revenue Fund, and (3) benefit assessments and any proceeds of taxes to the extent the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service. The term “Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amounts of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amounts were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Installment Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amount from, in each case, the next preceding Installment Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amount from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Installment Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest

portion of the Accreted Value of an such Capital Appreciation Obligations and the Appreciated Value of all such Deferred Income Obligations becoming due at maturity or on a scheduled redemption date shall be included in the calculations of Debt Service made under this definition only from and after the date (the "Calculation Date") which is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that "Debt Service" shall not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Debt Service Coverage Ratio. The term "Debt Service Coverage Ratio" means for the period in question the ratio of Net Water and Sewer Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio:

(a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from monies (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Obligations pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption shall have been given or arrangement shall have been made therefor, or waiver of such notice shall have been received by the District;

(b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, shall be deemed to bear interest at the Assumed Interest Rate and determined in accordance with paragraph (c) of the definition of Assumed Interest Rate and shall be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period;

(c) the interest on any Variable Rate Parity Obligations shall be calculated in accordance with the definition of Assumed Interest Rate;

(d) the annual principal and interest payment on Long-Term Parity Obligations arising from any Guaranty shall be taken into account as follows:

(i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation shall have demanded that the District pay principal of or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District's receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payment scheduled to become due on the guaranteed obligations; or

(ii) otherwise, twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligations;

(e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with paragraph (h) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”;

(f) principal and interest on Convertible Parity Obligations shall be determined in accordance with paragraph (i) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”; and

(g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with paragraph (j) under the caption “Summary of Certain Provisions of the Master Resolution— Additional Bonds and Contracts and Other Parity Obligations”.

Defeasance Securities. The term “Defeasance Securities” means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows:

(i) any bonds or other obligations which as to principal and interest constitute direct non-callable obligations of, or are unconditionally guaranteed as to the timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; provided, however, any such bonds or obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any state as described above shall be rated “AAA” by S&P and/or “Aaa” by Moody’s; and

(iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), but only if the same constitute Refcorp interest strips, CATS, TGRS and STRPS (as such terms are used in the municipal bond industry).

Deferred Income Bonds. The term “Deferred Income Bonds” means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.

Deferred Income Certificates. The term “Deferred Income Certificates” means any certificates of participation in Installment Payments as to which accruing interest is not paid prior to the Interest Commencement Date.

Deferred Income Parity Obligations. The term “Deferred Income Parity Obligations” means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, except Deferred Income Bonds and Deferred Income Certificates.

Experienced Banker or Advisor. The term “Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers’ issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution.

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Guaranty. The term “Guaranty” means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations; provided that “Guaranty” shall not include Maintenance and Operation Obligations.

Installment Payment Date. The term “Installment Payment Date” means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Installment Payments. The term “Installment Payments” means Contract Payments, Installment Sale Payments or Lease Payments.

Installment Sale Agreements. The term “Installment Sale Agreements” means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Installment Sale Payments. The term “Installment Sale Payments” means the Installment Sale or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

Interest Commencement Date. The term “Interest Commencement Date” means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

Interest Payment Date. The term “Interest Payment Date” means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Law. The term “Law” means the Municipal Water District Law of the State of California, being Division 20 of the Water Code of California, as amended, and any laws amendatory thereof or supplemental thereto.

Lease Payments. The term “Lease Payments” means the rental payments scheduled to be paid by the District under and pursuant to Leases.

Leases. The term “Leases” means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and

pursuant to which are payable from Net Water and Sewer Revenues on a parity with the payment of any other Parity Obligations.

Liquidity Backer. The term “Liquidity Backer” means any bank or other financial institution whose long term indebtedness is rated AA or better by Standard & Poor’s Corporation or whose long term indebtedness is rated Aa or better by Moody’s Investors Service, Inc., such ratings to be determined without regard to “+” or “-”.

Long-Term. The term “Long-Term” when used in connection with Parity Obligations, shall mean Parity Obligations having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which shall not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all cash of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountant; but excluding in an cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amount paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

Maintenance and Operation Obligation. The term “Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payment thereunder are to constitute Maintenance and Operation Costs.

Master Resolution. The term “Master Resolution” means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, and as it may be from time to time further modified, amended or supplemented.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in paragraph (e) under the caption “Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations”) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Monthly Accrued Debt Service. The term “Monthly Accrued Debt Service” means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts and Other Parity Obligations accrued and to accrue to the end of such month.

Net Water and Sewer Revenues. The term “Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

Obligation. The term “Obligation” means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Water and Sewer System; (b) the liability of the District under any lease or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

Option Bonds. The term “Option Bonds” means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates. The term “Option Certificates” means any certificates of participation in Installment Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations. The term “Option Parity Obligations” means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligations. The term “Other Parity Obligations” means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Other Parity Obligation Payments. The term “Other Parity Obligation Payments” means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Dates. The term “Other Parity Obligation Payment Dates” means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Outstanding. The term “Outstanding” means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments. The term “Parity Obligation Payments” means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations. The term “Parity Obligations” means all Obligations, the payments of which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date. The term “Principal Payment Date” means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

Project. The term “Project” means a specified list of any additions, betterment, extensions or improvements to the Water and Sewer System.

Refunding Parity Obligations. The term “Refunding Parity Obligations” means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement. The term “Reimbursement Agreement” means an agreement between the District and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance

policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water and Sewer Revenues on a parity with all Other Parity Obligations.

Reimbursement Payments. The term “Reimbursement Payments” means amount payable by the District as compensation or reimbursement for draws or the right to make a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payment or Installment Payments or Other Parity Obligation Payment in accordance with any Reimbursement Agreement.

Short-Term. The term “Short-Term” when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments. The term “Subordinate Obligation Payments” means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations. The term “Subordinate Obligations” means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Water and Sewer Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Parity Obligation Payments.

Trust Agreement. The term “Trust Agreement” means any resolution, indenture or trust agreement providing for the issuance of Bonds or certificates of participation or any Other Parity Obligation.

Valuation Date. The term “Valuation Date” means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations. The term “Variable Rate Parity Obligations” means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

Water and Sewer Revenues. The term “Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Service. The term “Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term “Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

ESTABLISHMENT OF FUNDS

The District establishes and agrees to maintain, so long as any Parity Obligations or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water and Sewer Revenue Fund, an Operating Fund, an Installment Payment Fund, an Operating Reserve Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the District. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

DEPOSITS AND WITHDRAWALS FROM RATE STABILIZATION FUND

From time to time the District may deposit in the Rate Stabilization Fund from Current Water and Sewer Revenues such amount as the District shall determine. All amounts transferred by the District from the Rate Stabilization Fund to the Water and Sewer Revenue Fund shall be used by the District solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water and Sewer Revenues.

USE OF OTHER FUNDS

The District may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations.

The District may withdraw amounts from the Subordinate Obligation Payment Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at the times and in the amounts required by applicable Subordinate Obligations or resolutions, trust agreements or indentures securing such Subordinate Obligations.

The District may withdraw money in the General Reserve Fund for any lawful purpose of the District, except to make transfers to the Rate Stabilization Fund.

The District may withdraw amounts from the Operating Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs.

The District may withdraw amounts from the Operating Reserve Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs to the extent sufficient funds are not otherwise available within the Operating Fund for such purposes. If at any time the amount on deposit in the Operating Reserve Fund is in excess of 1/4 of the Maintenance and Operation Costs as set forth in the then current annual budget of the District, the District may transfer such excess to the General Reserve Fund.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Installment Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Net Water and Sewer Revenues on a parity with the 1991 Installment Sale Agreement and all Other Parity Obligations; provided:

a. The District shall file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

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

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

c. Long-Term Parity Obligations may be incurred provided that one of the following tests is satisfied:

1. the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; or

2. (A) the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking in to account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred and (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; and

(B) taking into account the matters listed in clauses (i), (iii) and (iv) of paragraph (A) above, plus the then proposed Long-Term Parity Obligations, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

d. Completion Parity Obligations may be incurred without satisfying any of the tests described in the Master Resolution.

e. Refunding Parity Obligations may be incurred provided that the report or opinions set forth in paragraph (c) above shall be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, would not be increased by more than 5%; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph (e) only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (1) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public account as sufficient for such purpose; provided that notice of such redemption shall have been given or arrangements shall have been made therefor, or waiver of such notice shall have been received by the District.

f. Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this subsection does not exceed fifteen percent (15%) of the Net Water and Sewer Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations shall be reduced to an aggregate Outstanding principal amount not exceeding five percent (5%) of the Net Water and Sewer Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this subsection shall be deemed incurred pursuant to paragraph (c) above (and shall no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District shall be delivered to each Trustee pursuant to paragraph (c) above, which Certificate shall include such Parity Obligations.

g. Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there shall be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by either part (1) of paragraph (c) above or part (2) of paragraph (c) above demonstrating that all requirements of either part (1) of paragraph (c) above or part (2) of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion shall be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but shall not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraphs (e) or (g) above, the reports or opinions set forth in part (2) of paragraph (c) above need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (d) or (f) above.

h. In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Options Certificates or other Option Parity Obligations shall not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations shall be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

i. Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and this conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with the trustee under each Trust Agreement. If such a Certificate of the District is not filed with the trustee under each Trust Agreement, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

j. In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the "Credit Enhancers") shall not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations shall be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

OTHER OBLIGATIONS

a. Amounts to be paid by the District with respect to any Maintenance and Operation Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is entered into the District shall deliver to the trustee under each Trust Agreement a Certificate of the District to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the District's ability to comply with its rate covenant (see, "The Certificates - Rate Covenant" in the front portion of the Official Statement) during the next five Fiscal Years or five Fiscal Years beyond the commercial operation date of the Project being financed with such Obligation, whichever is later, and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If the amounts to be paid by the District for a Maintenance and Operation Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred, the District demonstrates compliance with the tests described above under "Additional Bonds and Contracts and Other Parity Obligations," in which event such amounts may be paid from the Installment Payment Fund.

b. Subordinated Obligations may be incurred without meeting any of the tests described above under "Additional Bonds and Contracts and Other Parity Obligations."

ADDITIONAL COVENANTS OF THE DISTRICT

Against Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the Water and Sewer System and will keep the Water and Sewer System free of any and all liens against any portion of the Water and Sewer System. In the event any such lien attaches to or is filed against any portion of the Water and Sewer System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water and Sewer System or any part thereof essential to the proper operation of the Water and Sewer System or to the maintenance of the Net Water and Sewer Revenues, and will not enter into any agreement or lease which would impair the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Water and Sewer Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or Other Parity Obligations with respect to the Net Water and Sewer Revenues or the operation of the Water and Sewer System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of

the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water and Sewer Revenues below the requirements of the District's rate covenant.

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

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on an Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to each Trustee.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water and Sewer System and all other contracts affecting or involving the Water and Sewer System to the extent that the District is a party thereto.

No Superior Liens. The District will not create or allow any lien or payment from the Net Water and Sewer Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligation.

Insurance. The District will procure and maintain such insurance relating to the Water and Sewer System which it shall deem advisable or necessary (based on the annual written report and approval of an independent insurance consultant) to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water and Sewer System; provided, the District shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with the facilities, properties, structures and works similar to the Water and Sewer System.

ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

a. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water and Sewer System, which records shall be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

b. The District will prepare and file with each Trustee annually within one hundred and eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1991):

(1) financial statement of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statement stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water and Sewer System as of the close of such Fiscal year, including the names of the insurers which have issued the policies, the amounts thereof and the property or risks covered thereby and a copy of the current annual report of the District's independent insurance consultant.

c. The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in

reasonable detail the result of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facility, properties, structures or works of the District and the insurance therein being maintained. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirement of any governmental authority relative to the operation of the Water and Sewer System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water and Sewer Service and will not permit any part of the Water and Sewer System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any, city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water and Sewer Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water and Sewer System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water and Sewer System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed component of the Water System or applied to the cancellation of Parity Obligations.

INDENTURE

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture will, for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and plural forms of any of the terms therein defined.

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

Alternate Liquidity Facility. The term "Alternate Liquidity Facility" means a Liquidity Facility issued to replace a Liquidity Facility to purchase 2018A Bonds tendered for purchase as provided in the Indenture.

Authorized Denominations. The term "Authorized Denominations" means, with respect to the 2018A Bonds which are subject to a Daily Interest Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

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

Bank Bond Rate. The term "Bank Bond Rate" means, at the date of determination, the interest rate specified by written agreement between the District and the Liquidity Facility Provider as being applicable with respect to draws or advances made under the Liquidity Facility in effect on such date, but in no event in excess of the Maximum Bank Bond Rate.

Bank Bonds. The term "Bank Bonds" means 2018A Bonds or the beneficial interest therein purchased by a Liquidity Facility Provider or its assignee pursuant to a Liquidity Facility and 2018A Bonds issued in exchange for

or in replacement or substitution thereof until such 2018A Bonds are remarketed as described in the Indenture or redeemed.

Beneficial Owner. The term “Beneficial Owner” means the actual purchaser of a 2018A Bond.

Bond Counsel. The term “Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Interest Term. The term “Bond Interest Term” means each period established in accordance with the Indenture during which the interest rate on a 2018A Bond is a Bond Interest Term Rate.

Bond Interest Term Rate. The term “Bond Interest Term Rate” means, with respect to each 2018A Bond, a non-variable interest rate on such 2018A Bond established periodically in accordance with the Indenture.

Bond Purchase Fund. The term “Bond Purchase Fund” means the fund by that name established with the Tender Agent pursuant to the Indenture.

Bonds. The term “Bonds” means the 2018A Bonds, the 2018B Bonds, the 2018C Bonds, the 2017A Bonds, the 2017B Bonds, the 2017C Bonds, the 2016A Bonds, the 2015A Bonds and all other revenue bonds or notes of the District which are authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the 2018A Bonds and which are secured by a pledge of and lien on Net Revenues as described in the Indenture. The term “Bonds” as defined in the Indenture does not have the meaning assigned to such term in the Master Resolution, and “Bonds” as defined in the Indenture constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

Bond Year. The term “Bond Year” means the period beginning on the date of issuance of the 2018A Bonds and ending on July 1, 2019, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2018A Bonds.

Business Day. The term “Business Day” means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, in any other state in which the Office of the Trustee is located or in which the Remarketing Agent maintains its principal office or in any other state in which drawings under the Liquidity Facility are required to be presented are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms “Certificate,” “Direction,” “Request” and “Requisition” of the District mean a written certificate, direction, request or requisition signed in the name of the District by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

Closing Date. The term “Closing Date” means the date on which the 2018A Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term “Continuing Disclosure Certificate” means the Continuing Disclosure Certificate of the District related to the 2018A Bonds and dated the Closing Date, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means the Liquidity Facility, the 2008C Swap, the 2014C Swap, the 2015B Installment Purchase Agreement, the 2016B Installment Purchase Agreement, the 2017D Installment Purchase Agreement, the State Contracts and all other contracts of the District which are previously or later authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with

the 2018A Bonds and which are secured by a pledge of and lien on Net Revenues as described in the Indenture; and excluding contracts entered into for maintenance and operation of the Water and Sewer System. The term “Contracts” as defined in the Indenture does not have the meaning assigned to such term in the Master Resolution, and “Contracts” as defined in the Indenture constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

Conversion; Convert; Converted. The terms “Conversion,” “Convert” or “Converted” mean or refer to a conversion of the 2018A Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Indenture.

Conversion Date. The term “Conversion Date” means the effective date of a Conversion of the 2018A Bonds.

Current Water and Sewer Revenues. The term “Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including: (i) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund; (ii) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Payment Fund or any Bond or Contract or Other Parity Reserve Fund (as all of such terms are defined in the Master Resolution and for so long as such funds are operative) or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a resolution, indenture or trust agreement providing for the issuance of Parity Obligations, Bonds or Contracts to the extent that such income is required to be available to make payments on Parity Obligations, Bonds or Contracts or is required to be deposited in the Water and Sewer Revenue Fund; and (iii) benefit assessments and any proceeds of taxes to the extent that the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations or Subordinate Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Daily Interest Rate. The term “Daily Interest Rate” means a variable interest rate with respect to the 2018A Bonds established in accordance with the Indenture.

Daily Interest Rate Period. The term “Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the 2018A Bonds.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of: (i) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); (ii) those portions of the principal amount of all outstanding serial Bonds maturing in such period; (iii) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; (iv) those obligations under the Contracts required to be paid by the District during such period, (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program), including but not limited to certain regularly scheduled payments made pursuant to the 2008C Swap, the 2014C Swap and any other Contract which is an interest rate swap agreement to the extent that such payments are due and payable; and (v) so long as any Liquidity Facility is in effect, the principal amount of any Liquidity Facility Provider Amounts owing thereunder, with interest thereon as provided in such Liquidity Facility; but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts;

provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest: (I) for periods when the actual interest rate can be determined, at the actual interest rate; and (II) for periods when the actual interest rate cannot be determined: (A) if interest on such Bonds or Contracts has accrued for at least 12 months, at the average interest rate with respect to such Bonds or Contracts over the preceding 12 months; or (B) if interest on such Bonds or Contracts has not accrued for at least 12 months, at: (y) the average of the Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations for the 12 months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the Securities Industry and Financial Markets Association Index or other index for such Bonds or Contracts, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds or Contracts were issued or delivered, as applicable; or (z) the average of the one-month London Interbank Offered Rate for taxable variable rate obligations for the 12 months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the London Interbank Offered Rate for taxable variable rate obligations, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds or Contracts were issued or delivered, as applicable. For purposes of the foregoing, at any time on or prior to the cessation of the London Interbank Offered Rate, which is currently expected to occur in 2021, "London Interbank Offered Rate" means any comparable alternative short-term interest rate index as may be selected by the District and communicated to the Trustee in writing; and

provided further that if any series or issue of such Bonds or Contracts have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined, at the election of the District, either when due and payable or, for the period of determination, as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation; and

provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will not be treated as interest in the calculation of Debt Service and any interest payable on such Bonds or Contracts will be calculated only when due and payable; and

provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations but only if the applicable Paired Obligations satisfy the requirements set forth in the Indenture; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Notwithstanding anything to the contrary set forth in the Indenture, the payment of the Purchase Price of 2018A Bonds upon an optional or mandatory tender thereof does not constitute Debt Service to the extent that such payment is not made or expected to be made from Net Revenues. The term "Debt Service" as defined in the Indenture does not have the meaning assigned to such term in the Master Resolution, and "Debt Service" as defined in the Indenture constitutes "Subordinate Obligation Payments" under the Master Resolution so long as the Master Resolution is operative.

Depository; DTC. The term "Depository" or "DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2018A Bonds.

Differential Interest Amount. Unless otherwise defined in a Liquidity Facility, in which case the definition in the Liquidity Facility controls, the term "Differential Interest Amount" means the amount of interest owing to the Liquidity Facility Provider under the Liquidity Facility because of the Liquidity Facility Provider's purchase of a

Bank Bond which exceeds the amount of accrued interest payable by the purchaser of such Bank Bond upon its remarketing by the Remarketing Agent.

District. The term “District” means Eastern Municipal Water District, a municipal water district that is duly organized and existing under and by virtue of the laws of the State.

Draw Request. The term “Draw Request” means a request by the Tender Agent under a Liquidity Facility or an Alternate Liquidity Facility for the payment of the Purchase Price of 2018A Bonds in accordance with the terms of the Indenture and thereof.

DWR. The term “DWR” means the State of California Department of Water Resources.

Eligible Account. The term “Eligible Account” means an account that is either: (a) maintained with a federal or state-chartered depository institution or trust company that has an S&P short-term debt rating of at least “A-2” (or, if no short-term debt rating, a long-term debt rating of “BBB+”) or an equivalent rating from any other Rating Agency; or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12, Section 9.10(b) of the Code of Federal Regulations, which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

Event of Default. The term “Event of Default” means any of the events of default specified in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the 12 month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other 12 month period later selected and designated as the official fiscal year period of the District.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Fixed Rate Bonds. The term “Fixed Rate Bonds” means 2018A Bonds accruing interest at a Long-Term Interest Rate for a Long-Term Interest Rate Period extending to the Maturity Date.

General Reserve Fund. The term “General Reserve Fund” means the fund by that name established pursuant to the Master Resolution.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of September 1, 2018, by and between the District and the Trustee, pursuant to which the 2018A Bonds are issued, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, which may, for purposes of the certification

described in the definition of “Paired Obligations” be an interest rate swap advisor, and who, or each of whom: (i) is in fact independent and not under domination of the District; (ii) does not have any substantial interest, direct or indirect, with the District; and (iii) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a certificate to the Trustee and as the Trustee may select.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement by that name described in the Indenture.

Interest Accrual Date. The term “Interest Accrual Date” means with respect to the 2018A Bonds, for any Daily Interest Rate Period, the first day thereof, and thereafter, the first day of each calendar month during such Daily Interest Rate Period.

Interest Payment Date. The term “Interest Payment Date” means with respect to the 2018A Bonds: (a) for any Daily Interest Rate Period, the first day of each calendar month, or, if such day is not a Business Day, the next succeeding Business Day, commencing October 1, 2018, and the day next succeeding the last day thereof; (b) for Bank Bonds, the days on which interest is due thereon pursuant to the Liquidity Facility; and (c) each mandatory sinking fund redemption date.

Interest Rate Period. The term “Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel, provided that, without limiting the foregoing, any such Investment Agreement will: (i) be fully collateralized or from a provider rated “A-” or “A3” or above by S&P or Moody’s, respectively; (ii) if not fully collateralized, require the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB+” or “Baa1” or below, respectively; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the 2018A Bonds, together with such amendments as may be approved by the District and the Trustee from time to time.

Letter of Representations. The term “Letter of Representations” means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the 2018A Bonds as book entry bonds setting forth the basis on which the Depository serves as Securities Depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the District delivered to and accepted by the Depository.

Liquidity Facility. The term “Liquidity Facility” means a standby bond purchase agreement, line of credit, loan, guaranty or similar agreement issued by the Liquidity Facility Provider to provide liquidity support to pay the Purchase Price of the 2018A Bonds tendered for purchase in accordance with the provisions of the Indenture, and any Alternate Liquidity Facility delivered pursuant to the Indenture and with terms that are not inconsistent with the terms thereof.

Liquidity Facility Provider. The term “Liquidity Facility Provider” means the provider of a Liquidity Facility, and its successors and permitted assigns, and, upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions issuing such Alternate Liquidity Facility, their successors and assigns. If any Alternate Liquidity Facility is issued by more than one bank or financial institution, notices required to be given to the Liquidity Facility Provider may be given to the bank or financial institution under such Alternate Liquidity Facility appointed to act as agent for all such banks or financial institutions.

Liquidity Facility Provider Amounts. The term “Liquidity Facility Provider Amounts” means, without limitation, all amounts at any time owing to the Liquidity Facility Provider in respect of any unreimbursed drawing under the Liquidity Facility, interest thereon or fees, expenses or other amounts owing under the Liquidity Facility.

Liquidity Facility Purchase Account. The term “Liquidity Facility Purchase Account” means the account by that name established within the Bond Purchase Fund pursuant to the Indenture.

Long-Term Interest Rate. The term “Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the Indenture.

Long-Term Interest Rate Period. The term “Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, Bonds or Contracts, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, Bonds or Contracts, fees and expenses of independent certified public accountants and Liquidity Facility Provider Amounts not constituting principal or interest; but excluding in all cases: (i) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts; (ii) interest expense; (iii) non-cash expenses attributable to pension plans, other retirement accounts and other post-employment benefits; and (iv) amounts paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes to the extent that such ad valorem property taxes do not constitute Water and Sewer Revenues).

Maintenance and Operation Obligation. The term “Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operation Costs.

Mandatory Standby Tender. The term “Mandatory Standby Tender” means the mandatory tender of 2018A Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate the Liquidity Facility upon notice and requires that all Outstanding 2018A Bonds secured by such Liquidity Facility be tendered for purchase.

Master Resolution. The term “Master Resolution” means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, and as it may be from time to time further modified, amended or supplemented.

Maturity Date. The term “Maturity Date” means July 1, 2046.

Maximum Bank Bond Rate. The term “Maximum Bank Bond Rate” means maximum per annum rate of interest permitted by law.

Maximum Rate. The term “Maximum Rate” means the rate of 12% per annum or such lower maximum interest rate permitted by law, calculated in the same manner as interest is calculated for the particular interest on the 2018A Bonds.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement by that name described in the Indenture.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any Fiscal Year or other period, the Net Water and Sewer Revenues during such Fiscal Year or period less all net amounts payable by the District on the Parity Obligations during such Fiscal Year or period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Net Water and Sewer Revenues. The term “Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as may be specified in writing by the Trustee to the District and the Liquidity Facility Provider, if any, except that with respect to presentation of 2018A Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Opinion of Bond Counsel. The term “Opinion of Bond Counsel” means an opinion of Bond Counsel addressed to the District, the Trustee, the Remarketing Agent (if any) and the Liquidity Facility Provider (if any) to the effect that an action proposed to be taken is not prohibited by the laws of the State or the Indenture and/or will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2018A Bonds.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2018A Bonds, means (subject to the provisions of the Indenture) all 2018A Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2018A Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2018A Bonds with respect to which all liability of the District has been discharged in accordance with the Indenture, including 2018A Bonds (or portions thereof) described therein; and (iii) 2018A Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2018A Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2018A Bond Owner. The term “Owner” or “2018A Bond Owner,” whenever used in the Indenture with respect to a 2018A Bond (including any Bank Bonds), means the person in whose name the ownership of such 2018A Bond (including any Bank Bonds) is registered on the Registration Books.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the District.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, and which complies with the provisions of the Indenture.

Parity Obligations. The term “Parity Obligations” means all revenue bonds, contracts and other obligations of the District (excluding contracts entered into for maintenance and operation of the Water and Sewer System) which are secured by a pledge of and lien on the Net Water and Sewer Revenues and payable from Net Water and Sewer Revenues on a senior basis to Bonds and Contracts, including but not limited to the District’s Refunding Water and Sewer Revenue Bonds, Series 2011A.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry bonds as securities depository.

Permitted Investments. The term “Permitted Investments” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the District’s funds, as determined by the District: (i) Federal Securities; and (ii) for all purposes other than defeasance investments in refunding escrow accounts: (1) obligations of any of the following federal agencies, which obligations represent full faith and credit of the United States of America: Export Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by the applicable Rating Agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee and its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and mature no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A 1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody’s, or any successor thereto; (7) any Investment Agreement; (8) the Local Agency Investment Fund of the State; and (9) any other investment permitted by law.

Purchase Date. The term “Purchase Date” means the date on which 2018A Bonds are required to be purchased pursuant to the Indenture.

Purchase Price. The term “Purchase Price” means the purchase price to be paid to the Owners of 2018A Bonds purchased pursuant to the Indenture, which will be equal to the principal amount thereof tendered for purchase, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date), plus, in the case of a Conversion from the Long-Term Interest Rate on an optional redemption date, any applicable premium.

Rate Stabilization Fund. The term “Rate Stabilization Fund” means the fund by that name established pursuant to the Master Resolution.

Rating. The term “Rating” means any currently effective rating on the 2018A Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P, Fitch and Moody’s, to extent that each of such agencies is then rating the 2018A Bonds.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to the Indenture.

Record Date. The term “Record Date” means with respect to any Interest Payment Date while the 2018A Bonds are in a Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date while the 2018A Bonds are in a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2018A Bonds.

Redemption Price. The term “Redemption Price” means, with respect to any 2018A Bond (or portion thereof), the principal amount of such 2018A Bond (or portion thereof) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2018A Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2018A Bonds pursuant to the Indenture.

Remarketing Account. The term “Remarketing Account” means the account by that name established within the Bond Purchase Fund pursuant to the Indenture.

Remarketing Agent. The term “Remarketing Agent” means each person qualified under the Indenture to act as Remarketing Agent for the 2018A Bonds and appointed by the District from time to time.

Remarketing Agreement. The term “Remarketing Agreement” means the Remarketing Agreement between the District and a Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of a Remarketing Agent under the Indenture, as amended from time to time.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

Short-Term Interest Rate Period. The term “Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which the 2018A Bonds accrue interest at one or more Bond Interest Term Rates.

SIFMA Index. The term “SIFMA Index” means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data which meet specific criteria established by the Securities Industry and Financial Markets Association and acceptable to the Remarketing Agent, and effective from such date.

State. The term “State” means the State of California.

State Contracts. The term “State Contracts” means, collectively: (i) Safe Drinking Water State Revolving Fund Loan Contract No. SRF02LMX101, dated March 3, 2005, by and between the District and DWR, relating to the Hemet Water Filtration Plant (Project No. 3310009-52), in the original principal amount of approximately

\$42,098,388; (ii) State Revolving Fund Loan Contract No. 08-845-550, dated June 23, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Secondary Clarifier and Tertiary Treatment Project (Project No. C-06-5100-110), in the original approved principal amount of approximately \$38,302,852; (iii) Amended Finance Agreement No. 09-809-550, dated September 15, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Acid Phase Anaerobic Digestion Project (Project No. C 06-5311-110), as amended by Amendment No. 1 thereto, dated January 29, 2010, Amendment No. 2 thereto dated April 6, 2010 and Amendment No. 3 thereto dated April 11, 2016, in the original approved principal amount of approximately \$43,908,096; (iv) Installment Sale Agreement and Grant No. D15-01017, dated January 7, 2016, by and between the District and SWRCB, relating to the Recycled Water Pond Optimization and Expansion Project (Project No. C-06-7831-110), in the original approved principal amount of approximately \$11,246,300, as amended by Amendment No. 1 dated April 11, 2016; (v) Installment Sale Agreement (100% PF) No. D-15-2009 (Project No. 3310009-067C), by and between the District and SWRCB, relating to the County Water Company Consolidation, dated July 12, 2016, in the original approved principal amount of \$2,986,500; (vi) Installment Sale Agreement and Grant No. D-16-01036 (Water Recycling Project No. C-06-8047-110), by and between the District and SWRCB, relating to the Recycled Water Supply Optimization Program, dated July 12, 2017, in the original approved principal amount of \$95,264,880; (vii) Construction Loan 100% PF No. D-17-01031 (Project No. C-06-8165-110), by and between the District and SWRCB, relating to the Alessandro Pond Optimization Project, dated April 13, 2018; and (viii) Any future loans or contracts by and between the District and any State entity payable from Net Water and Sewer Revenues on a parity with Bonds and Contracts.

Subordinate Obligation Payment Fund. The term “Subordinate Obligation Payment Fund” means the fund by that name established pursuant to the Master Resolution and, in the event that the Master Resolution is no longer operative, continued pursuant to the Indenture.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture later duly authorized and entered into between the District and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

SWRCB. The term “SWRCB” means the State of California Water Resources Control Board.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date concerning certain matters pertaining to the use and investment of proceeds of the 2018A Bonds executed by the District on the date of issuance of the 2018A Bonds, including any and all exhibits attached thereto.

Tender Agent. The term “Tender Agent” means each person qualified under the Indenture to act as Tender Agent with respect to the 2018A Bonds and so appointed by the District and so acting from time to time, and its successors. The Tender Agent will at all times be the Trustee.

Trustee. The term “Trustee” means Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee under the Indenture as provided therein.

2008C Swap. The term “2008C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated December 12, 2014, and each by and between Wells Fargo Bank, N.A. and the District, and all exhibits thereto, as amended or restated from time to time.

2014C Swap. The term “2014C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated October 31, 2014, and each by and between Wells Fargo Bank, National Association and the District, and all exhibits thereto, as amended or restated from time to time.

2015A Bonds. The term “2015A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2015A issued by the District pursuant to the Indenture of Trust, dated as of June 1, 2015, by and between the District and the Trustee.

2015B Installment Purchase Agreement. The term “2015B Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of July 1, 2015, by and between the District and the Eastern Municipal Water District Financing Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2015B.

2016A Bonds. The term “2016A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2016A issued by the District pursuant to the Indenture of Trust, dated as of April 1, 2016, by and between the District and the Trustee.

2016B Installment Purchase Agreement. The term “2016B Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of September 1, 2016, by and between the District and the Eastern Municipal Water District Financing Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B.

2017A Bonds. The term “2017A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017A issued by the District pursuant to the Indenture of Trust relating thereto, dated as of April 1, 2017, by and between the District and the Trustee.

2017B Bonds. The term “2017B Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017B issued by the District pursuant to the Indenture of Trust relating thereto, dated as of April 1, 2017, by and between the District and the Trustee.

2017C Bonds. The term “2017C Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of May 1, 2017, by and between the District and the Trustee.

2017D Installment Purchase Agreement. The term “2017D Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of May 1, 2017, by and between the District and the Eastern Municipal Water District Financing Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2017D.

2018A Bonds. The term “2018A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018A issued by the District and at any time Outstanding pursuant to the Indenture.

2018A Interest Account. The term “2018A Interest Account” means the account by that name in the 2018A Payment Fund established pursuant to the Indenture.

2018A Payment Fund. The term “2018A Payment Fund” means the fund by that name established pursuant to the Indenture.

2018A Principal Account. The term “2018A Principal Account” means the account by that name in the 2018A Payment Fund established pursuant to the Indenture.

2018A Redemption Fund. The term “2018A Redemption Fund” means the fund by that name established pursuant to the Indenture.

2018B Bonds. The term “2018B Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018B issued by the District pursuant to the Indenture of Trust relating thereto, dated as of September 1, 2018, by and between the District and the Trustee.

2018C Bonds. The term “2018C Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of September 1, 2018, by and between the District and the Trustee.

Undelivered Bond. The term “Undelivered Bond” means any 2018A Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

Water and Sewer Revenue Fund. The term “Water and Sewer Revenue Fund” means the fund by that name established pursuant to the Master Resolution.

Water and Sewer Revenues. The term “Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Service. The term “Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term “Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

Weekly Interest Rate. The term “Weekly Interest Rate” means a variable interest rate with respect to the 2018A Bonds established in accordance with the Indenture.

Weekly Interest Rate Period. The term “Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for the 2018A Bonds.

Written Consent of the District; Written Order of the District; Written Request of the District; Written Requisition of District. The terms “Written Consent of the District,” “Written Order of the District,” “Written Request of the District” and “Written Requisition of the District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the District by an Authorized Representative or by any two persons (whether or not members of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture, except the certificate of destruction provided for therein, with respect to compliance with any provision thereof must include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions therein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he or she has made or caused to be made such examination or investigation as is necessary to enable such person to express an informed opinion with respect to the subject matter referred to in the instrument to which such person’s signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the District may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the District) upon a certificate or opinion of or representation by an officer of the District, unless such counsel or Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the District, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

THE 2018A BONDS

Terms of the 2018A Bonds. The 2018A Bonds will be issued in fully registered form without coupons in Authorized Denominations. The 2018A Bonds will mature on the Maturity Date. Interest on the 2018A Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of \$1,000,000 or more in principal amount, such payment may, at such Owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record Date. Principal of and premium (if any) on any 2018A Bond will be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the 2018A Bonds will be payable in lawful money of the United States of America.

Transfer of 2018A Bonds. Any 2018A Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2018A Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2018A Bond during the period in which the Trustee is selecting 2018A Bonds for redemption and any 2018A Bond that has been selected for redemption.

Whenever any 2018A Bond or 2018A Bonds is surrendered for transfer, the District will execute and the Trustee will authenticate and deliver a new 2018A Bond or 2018A Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2018A Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2018A Bonds, the Trustee will cancel and destroy the 2018A Bonds it has received.

Exchange of 2018A Bonds. 2018A Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any 2018A Bond during the period in which the Trustee is selecting 2018A Bonds for redemption or any 2018A Bond that has been selected for redemption. The Trustee will require the 2018A Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2018A Bonds, the Trustee will cancel and destroy the 2018A Bonds it has received.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2018A Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the District and the Owners; and, upon

presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2018A Bonds as provided in the Indenture. The person in whose name any 2018A Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2018A Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2018A Bond to the extent of the sum or sums so paid.

2018A Bonds Mutilated, Lost, Destroyed or Stolen. If any 2018A Bond becomes mutilated, the District, at the expense of the Owner of said 2018A Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2018A Bond of like tenor, series and authorized denomination in exchange and substitution for the 2018A Bonds so mutilated, but only upon surrender to the Trustee of the 2018A Bond so mutilated. Every mutilated 2018A Bond so surrendered to the Trustee will be canceled by it and upon the Written Request of the District delivered to, or upon the order of, the District. If any 2018A Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the District, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2018A Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2018A Bond so lost, destroyed or stolen (or if any such 2018A Bond has matured or is about to mature, instead of issuing a substitute 2018A Bond, the Trustee may pay the same without surrender thereof). The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2018A Bond issued under the Indenture and of the expenses which may be incurred by the District and the Trustee in connection therewith. Any 2018A Bond issued under the provisions of the Indenture in lieu of any 2018A Bond alleged to be lost, destroyed or stolen constitutes an original additional contractual obligation on the part of the District whether or not the 2018A Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and is entitled to the benefits of the Indenture with all other 2018A Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2018A Bond for a 2018A Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2018A Bond upon receipt of indemnity satisfactory to the Trustee.

Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2018A Bonds, the District may provide that such 2018A Bonds will be initially issued as book entry 2018A Bonds. If the District elects to deliver any 2018A Bonds in book entry form, then the District will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2018A Bonds in an authorized denomination corresponding to that total principal amount of the 2018A Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2018A Bond will be registered in the 2018A Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2018A Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2018A Bonds, the District and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2018A Bonds. Without limiting the immediately preceding sentence, the District and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2018A Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2018A Bond Registration Books, of any notice with respect to book entry 2018A Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2018A Bonds to be redeemed in the event that the District redeems the 2018A Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2018A Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2018A Bond is registered in the 2018A Bond Registration Books as the absolute Owner of such book entry 2018A Bond for the purpose of payment of principal of, premium and interest on such 2018A Bond, for the purpose of giving notices of redemption and other matters with respect to such 2018A Bond, for the purpose of registering transfers with respect to such 2018A Bond and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2018A Bonds

(including Bank Bonds), computed at the rate of interest applicable to 2018A Bonds that are not Bank Bonds, only to or upon the order of the respective Owner, as shown in the 2018A Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the 2018A Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2018A Bond Registration Books, may receive a 2018A Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2018A Bonds. Upon delivery by the Depository to the District and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2018A Bonds for the Depository's book entry system, the District and the Trustee (if required by the Depository) will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations does not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2018A Bonds other than the Owners, as shown on the 2018A Bond Registration Books. By executing a Letter of Representations, the Trustee has agreed to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2018A Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2018A Bonds; or (ii) the District determines that continuation of the book entry system is not in the best interest of the Beneficial Owners of the 2018A Bonds or the District, then the District will discontinue the book entry system with the Depository. If the District determines to replace the Depository with another qualified Securities Depository, the District will prepare or direct the preparation of a new single, separate, fully registered 2018A Bond for each of the maturity dates of such book entry 2018A Bonds, registered in the name of such successor or substitute qualified Securities Depository or its Nominee as provided in the Indenture. If the District fails to identify another qualified Securities Depository to replace the Depository, then the 2018A Bonds will no longer be restricted to being registered in such 2018A Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2018A Bonds designate, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2018A Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on or Purchase Price of the 2018A Bonds and all notices with respect to the 2018A Bonds will be made and given, respectively, to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2018A Bonds to Substitute Depository. (i) The 2018A Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2018A Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below ("Substitute Depository"); provided that any successor of DTC or Substitute Depository must be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository must be qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (A) or (B) above, upon receipt of all Outstanding 2018A Bonds by the Trustee, together with a Written Request of the District to the Trustee

designating the Substitute Depository, a single new 2018A Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of 2018A Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the District. In the case of any transfer pursuant to clause (C) above, upon receipt of all Outstanding 2018A Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2018A Bonds, which the District will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the District, subject to the limitations of the Indenture, provided that the Trustee is not required to deliver such new 2018A Bonds within a period of less than 60 days from the date of receipt of such Written Request from the District.

(iii) In the case of a partial redemption or an advance refunding of any 2018A Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2018A Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2018A Bonds will be controlling.

(iv) The District and the Trustee are entitled to treat the person in whose name any 2018A Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the 2018A Bonds. Neither the District nor the Trustee have any responsibility or obligation, legal or otherwise, to any such Beneficial Owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2018A Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2018A Bonds.

Initial Interest. Notwithstanding anything to the contrary contained in the Indenture, the 2018A Bonds will initially bear interest at the Daily Interest Rate.

Initial Nominee. The 2018A Bonds will be executed and delivered in fully registered form and will be initially issued registered in the name of "Cede & Co.," as Nominee of DTC in accordance with the Indenture. The 2018A Bonds will be evidenced by one bond maturing on the stated Maturity Date. The 2018A Bonds may be assigned by the Trustee a distinctive number or letter and number, and a record of the same will be maintained by the Trustee. Registered ownership of the 2018A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture.

Maturity After Conversion. Notwithstanding anything to the contrary in the Indenture, in connection with a Conversion of the 2018A Bonds to a Long-Term Interest Rate Period extending to the Maturity Date, the 2018A Bonds bearing interest at a Long-Term Interest Rate for a Long Term Interest Rate Period extending to the Maturity Date will mature as described in the Indenture. The Conversion may not result in a change to the amortization schedule for the 2018A Bonds, provided that the Remarketing Agent may establish a different amortization schedule for the Fixed Rate Bonds as selected by the District so long as the provisions of the Indenture are met.

Interest on the 2018A Bonds.

(a) General. The interest rate and Interest Rate Period on and for the 2018A Bonds may be adjusted as set forth in the Indenture. Except while 2018A Bonds bear interest at Bond Interest Term Rates, all 2018A Bonds will represent the same interest rate for the same Interest Rate Period. No 2018A Bond may, at any time, bear interest in excess of the Maximum Rate.

(b) Payment of Interest. Interest on the 2018A Bonds will be paid on each Interest Payment Date and Redemption Date and on the Maturity Date therefor. In particular and not in limitation of the foregoing, in the case of Bank Bonds: (i) if the 2018A Bonds are then held as book entry bonds, the District will cause the Trustee to pay, on each Interest Payment Date for Bank Bonds, interest at the Bank Bond Rate accrued on the Bank Bonds by crediting the Bank Bond CUSIP number with the interest accrued with respect thereto; and (ii) if the 2018A

Bonds are not then held as book entry bonds, the District will cause the Trustee to pay, on each Interest Payment Date for Bank Bonds, interest at the Bank Bond Rate accrued with respect to the Bank Bonds by wire transfer to the account of the Liquidity Facility Provider specified in the Liquidity Facility of the interest accrued with respect thereto.

(c) Conversion to Weekly Interest Rate. Subject to the Indenture, the District may, from time to time, by written direction to the Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any) and the Remarketing Agent (if any), elect that the 2018A Bonds will bear interest at a Weekly Interest Rate. The direction of the District will specify: (1) the proposed effective date of the Conversion to a Weekly Interest Rate, which will be, in each case, a Business Day not earlier than the 30th day following the fifth Business Day after receipt by the Trustee of such direction; (2) the Purchase Date for the 2018A Bonds to be purchased, which will be the proposed effective date of the Conversion to a Weekly Interest Rate; and (3) information about the Liquidity Facility Provider and the Liquidity Facility that will support the 2018A Bonds in a Weekly Interest Rate Period. In addition, the direction of the District must be accompanied by a form of notice to be mailed to the Owners of the 2018A Bonds by the Trustee as provided in the Indenture. During each Weekly Interest Rate Period for the 2018A Bonds commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the 2018A Bonds will be a Weekly Interest Rate.

The Trustee will give notice by first class mail of a Conversion to a Weekly Interest Rate Period to the Owners of the 2018A Bonds not less than 15 days prior to the proposed effective date of such Weekly Interest Rate Period. Such notice will state: (1) that the interest rate will be Converted to a Weekly Interest Rate unless the District rescinds its election to Convert the interest rate to a Weekly Interest Rate as provided in the Indenture; (2) the proposed effective date of the Weekly Interest Rate Period; (3) that the 2018A Bonds are subject to mandatory tender for purchase on the proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2018A Bonds; and (d) the information that is described in the Official Statement under the caption “THE 2018A BONDS—Optional and Mandatory Tender—Notice of Mandatory Tender for Purchase.”

(d) Conversion to Long-Term Interest Rate. Subject to the Indenture, at any time, the District, by written direction to the Trustee, the Tender Agent, the Liquidity Facility Provider (if any), and the Remarketing Agent (if any), may elect that the 2018A Bonds bear interest at a Long-Term Interest Rate. The direction of the District: (1) must specify the duration of the Long-Term Interest Rate Period; (2) must specify the proposed effective date of the Long-Term Interest Rate Period, which date must be in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Trustee of such direction; (3) must specify the last day of the Long-Term Interest Rate Period (which last day must be either the day immediately prior to the Maturity Date, or a day which both immediately precedes a Business Day and is at least 181 days after the effective date thereof); (4) must specify a Purchase Date on or prior to which Owners of the 2018A Bonds are required to deliver their 2018A Bonds to be purchased; and (5) may specify redemption prices and periods (subject to the requirement of an Opinion of Bond Counsel as provided in the Indenture) different than those set forth in the Indenture, and, in connection with a Conversion to a Long-Term Interest Rate Period extending to the Maturity Date of the 2018A Bonds, must provide for the 2018A Bonds to mature and/or be subject to annual mandatory redemption as provided in the Indenture.

The direction of the District described in the preceding paragraph must be accompanied by a form of the notice to be mailed by Trustee to the Owners of the 2018A Bonds as provided in the Indenture. During the Long-Term Interest Rate Period, the interest rate borne by the 2018A Bonds will be a Long-Term Interest Rate. If, by the second Business Day preceding the 29th day prior to the last day of any Long-Term Interest Rate Period with respect to the 2018A Bonds, the Trustee has not received notice of the District’s election that, during the next succeeding Interest Rate Period, the 2018A Bonds will bear interest at a Weekly Interest Rate, a Daily Interest Rate or another Long-Term Interest Rate or at Bond Interest Term Rates, the next succeeding Interest Rate Period with respect to the 2018A Bonds will be a Long-Term Interest Rate Period of 181 days until such time as the interest rate on the 2018A Bonds is Converted to a Daily Interest Rate, Weekly Interest Rate, another Long-Term Interest Rate or Bond Interest Term Rates as provided in the Indenture, and the 2018A Bonds will be subject to mandatory purchase as provided in the Indenture on the first day of such Long-Term Interest Rate Period.

The Trustee will give notice by first class mail of a Conversion to a Long-Term Interest Rate Period to the Owners of the 2018A Bonds not less than 30 days prior to the effective date of the Long-Term Interest Rate Period.

Such notice must state: (1) that the interest rate will be Converted to, or continue to be, a Long-Term Interest Rate unless: (I) the District rescinds its election to Convert the interest rate to a Long-Term Interest Rate as provided in the Indenture; or (II) all of the 2018A Bonds are not remarketed at a Long-Term Interest Rate; (2) the proposed effective date, duration and last day of the Long-Term Interest Rate Period; (3) that the 2018A Bonds are subject to mandatory tender for purchase on such proposed effective date and setting forth the Purchase Price and the place of delivery for purchase of the 2018A Bonds; and (4) the information set forth in the Indenture.

(e) Conversion to Bond Interest Term Rates. Subject to the Indenture, the District may, from time to time, by written direction to the Trustee, the Remarketing Agent, the Tender Agent and the Liquidity Facility Provider (if any) elect that the 2018A Bonds bear interest at Bond Interest Term Rates. The direction of the District must specify: (1) the proposed effective date of the Short-Term Interest Rate Period (during which the 2018A Bonds will bear interest at Bond Interest Term Rates), which will be in each case, a Business Day not earlier than the 30th day following the second Business Day after receipt by the Trustee of such direction; (2) the Purchase Date for the 2018A Bonds to be purchased, which will be the proposed effective date of the Short-Term Interest Rate Period; and (3) information about the Liquidity Facility Provider and the Liquidity Facility that will support the 2018A Bonds in a Short-Term Interest Rate Period. In addition, the direction of the District will be accompanied by a form of the notice to be mailed by the Trustee to the Owners of the 2018A Bonds as provided in the Indenture. During each Short-Term Interest Rate Period commencing on the date specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, each 2018A Bond will bear interest at a Bond Interest Term Rate during each Bond Interest Term for such 2018A Bond.

The Trustee will give notice by first class mail of a Conversion to a Short-Term Interest Rate Period to the Owners of the 2018A Bonds not less than 30 days prior to the proposed effective date of such Short Term Interest Rate Period. Such notice must state: (1) that the 2018A Bonds will bear interest at Bond Interest Term Rates unless the District rescinds its election to Convert the interest rate to Bond Interest Term Rates as provided in the Indenture; (2) the proposed effective date of the Short Term Interest Rate Period; (3) that the 2018A Bonds are subject to mandatory tender for purchase on the proposed effective date of the Short-Term Interest Rate Period and setting forth the applicable Purchase Price and the place of delivery for purchase of the 2018A Bonds; and (d) the information set forth in the Indenture.

(f) Determinations of Remarketing Agent Binding. The determination of the Daily Interest Rate by the Remarketing Agent will be conclusive and binding upon the District, the Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider and the Owners.

(g) Bank Bonds. Bank Bonds will bear interest at the Bank Bond Rate. Promptly upon being notified of any date of remarketing of Bank Bonds, but not later than 12:30 p.m., New York City time, on the remarketing date, the Liquidity Facility Provider will notify the Trustee of the amount of interest owing to the Liquidity Facility Provider under the Liquidity Facility for accrued interest on Bank Bonds at the Bank Bond Rate. The Trustee is directed: (i) pay the Differential Interest Amount to the Liquidity Facility Provider with amounts deposited with the Trustee by the District in the 2018A Interest Account on the date of remarketing; and (ii) notify the Tender Agent and the Remarketing Agent of the amount of interest that would have accrued on the same principal amount of 2018A Bonds that were not Bank Bonds and the price paid by purchasers of such Bank Bonds upon a remarketing thereof will be 100% of the principal amount thereof plus such interest amount (provided, however, that if all 2018A Bonds are Bank Bonds, the amount of interest that would have been borne by such 2018A Bonds that were not Bank Bonds will be deemed to be zero, such remarketing date will be deemed an Interest Accrual Date and such Bank Bonds will be remarketed at a price equal to 100% of the principal amount thereof), and all accrued interest at the Bank Bond Rate will be paid by the District, or by the Trustee on behalf of the District, to the Liquidity Facility Provider.

(h) Maximum Rate to Apply Under Certain Circumstances. Notwithstanding anything in the Indenture to the contrary, if the 2018A Bonds are bearing interest at a Daily Interest Rate and the Remarketing Agent resigns and no successor has been appointed as of the effective date of such resignation, then the 2018A Bonds will bear interest at the Maximum Rate until a successor Remarketing Agent has been appointed and begins determining the Daily Interest Rate. Notwithstanding anything in the Indenture to the contrary, if a Liquidity Facility is required to be maintained pursuant to the Indenture and no Liquidity Facility is in effect, then the 2018A

Bonds will bear interest at the Maximum Rate until an Alternate Liquidity Facility is delivered to the Tender Agent and accepted pursuant to the Indenture.

Method and Place of Payment. Notwithstanding the provisions of the Indenture, when the 2018A Bonds are held as book entry bonds, interest may be paid by wire transfer in accordance with mutually satisfactory arrangements between the Trustee and the Securities Depository. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money.

Purchase of 2018A Bonds.

(a) Purchase upon Conversion. The 2018A Bonds are subject to mandatory tender for purchase upon any conversion to a Weekly Interest Rate, a Long-Term Interest Rate or Bond Interest Term Rates as described in the Indenture.

(b) Irrevocable Notice Deemed to be Tender of 2018A Bond; Undelivered Bonds. The giving of notice by a Beneficial Owner of 2018A Bonds as provided in the Indenture constitutes the irrevocable tender for purchase with respect to which such notice is given regardless of whether such 2018A Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date. The Tender Agent may refuse to accept delivery of any 2018A Bond for which a proper instrument of transfer has not been provided. However, such refusal does not affect the validity of the purchase as described in the Indenture. If any Beneficial Owner who has given notice of tender for purchase pursuant to the Indenture or any Owner or Beneficial Owner subject to mandatory tender for purchase pursuant to the Indenture fails to deliver such 2018A Bond to the Tender Agent at the place and on the Purchase Date and at the time specified, or fails to deliver such 2018A Bond properly endorsed, such 2018A Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available for payment to the Owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of such required delivery: (a) the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Indenture; (b) interest will no longer accrue with respect to the Undelivered Bond; and (c) funds in the amount of the Purchase Price of the Undelivered Bond will be held uninvested by the Tender Agent for the benefit of the Owner thereof and the Owner will have no right to any investment proceeds derived from such funds, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its Office for delivery of 2018A Bonds.

(c) Book Entry System. Notwithstanding anything to the contrary in the Indenture, so long as the book entry system described in the Indenture is in effect, the tender/put procedures of the Securities Depositories, as in effect from time to time, will take precedence over the tender procedures described in the Indenture to the extent of any inconsistency, and the Remarketing Agent and the Trustee are not required to take any actions under the Indenture other than those required by the Securities Depositories and the Remarketing Agreement. The District and the Trustee have agreed to cooperate to implement such procedures as necessary.

Liquidity Facility. A Liquidity Facility, in an amount equal to the sum of outstanding principal and interest calculated at the Maximum Rate for the number of days as may be approved by the Rating Agencies, will be selected and maintained by the District for the 2018A Bonds bearing interest at the Daily Interest Rate.

(a) Draw Requests to Pay Purchase Price. If there is not a sufficient amount of money available to pay the Purchase Price pursuant to the Indenture on a Purchase Date on which 2018A Bonds are required to be purchased pursuant thereto, the Tender Agent will make a Draw Request or Requests under the Liquidity Facility for such 2018A Bonds in accordance with its terms and in accordance with the Indenture to receive immediately available funds on the Purchase Date sufficient to pay the balance of the Purchase Price. The Tender Agent will deposit the proceeds of such Draw Requests in the Liquidity Facility Purchase Account pursuant to the Indenture pending application of such money to the payment of the Purchase Price. In determining the amount of the Purchase Price then due, the Tender Agent will not take into consideration any Bank Bonds. No Draw Requests will be made under a Liquidity Facility to pay the Purchase Price of Bank Bonds or 2018A Bonds owned by or held on behalf of or for the benefit of or for the account of the District. Bank Bonds may not be tendered for purchase at the option of the Liquidity Facility Provider.

(b) Surrender of Liquidity Facility. If an Alternate Liquidity Facility is delivered to the Tender Agent pursuant to the Indenture with the documents required by the Indenture, then the Tender Agent will accept the Alternate Liquidity Facility and surrender the Liquidity Facility previously held for cancellation, provided that no Liquidity Facility may be surrendered until after the date on which 2018A Bonds required to be purchased pursuant to the Indenture have been purchased in accordance therewith. Upon the defeasance of 2018A Bonds pursuant to the Indenture or at such time as the 2018A Bonds are no longer subject to tender for purchase pursuant thereto, the Tender Agent will surrender the Liquidity Facility to the Liquidity Facility Provider for cancellation. The Tender Agent will comply with the procedures set forth in the Liquidity Facility relating to the termination thereof and deliver any certificates reducing the stated amount of the Liquidity Facility in accordance with the provisions thereof.

(c) Notice by Trustee. In connection with a Mandatory Standby Tender resulting in a mandatory purchase of 2018A Bonds as provided in the Indenture, the Trustee will give the notice of mandatory tender for purchase of such 2018A Bonds as provided therein.

(d) Notices from District and Trustee.

(i) Notices from District. The District will give notice to the Trustee, the Remarketing Agent, the Tender Agent and the Liquidity Facility Provider promptly upon the occurrence of any of the following events: (A) the extension of the expiration date of the Liquidity Facility; (B) the execution of an Alternate Liquidity Facility; (C) the termination or suspension of the Liquidity Facility; and (D) the appointment of a successor to any of the Liquidity Facility Provider, the Remarketing Agent, the Trustee or the Tender Agent.

(ii) Notices from Trustee to Owners of 2018A Bonds. The Trustee will, promptly upon receipt of notice from: (a) the District of the occurrence of any of the events listed in clause (i) above, give notice to the Owners of Outstanding 2018A Bonds of the occurrence of such event; and (b) the Liquidity Facility Provider of notice of a Mandatory Standby Tender, give notice to the District, the Tender Agent, the Remarketing Agent and the Owners of Outstanding 2018A Bonds of the occurrence of the Mandatory Standby Tender with the information set forth in the Indenture.

Alternate Liquidity Facility.

(a) Delivery by District. At any time, not later than 30 days prior to the expiration or termination of a Liquidity Facility, in accordance with the terms of the Liquidity Facility, the District may provide for the delivery to the Tender Agent of an Alternate Liquidity Facility, the delivery of which will occur not later than one Business Day prior to the expiration or termination of the Liquidity Facility. Any Alternate Liquidity Facility delivered to the Tender Agent pursuant to the Indenture must contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the District must furnish to the Tender Agent an opinion of counsel to the Alternate Liquidity Facility Provider to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof.

(b) Acceptance by Tender Agent. If at any time there is delivered to the Tender Agent: (i) an Alternate Liquidity Facility covering all of the 2018A Bonds; (ii) the information, opinions and data required by the Indenture; and (iii) all information required to give the notice of mandatory tender for purchases of the 2018A Bonds if required by the Indenture, then the Tender Agent will accept such Alternate Liquidity Facility and, after the date of the mandatory tender for purchase established pursuant to the Indenture, promptly surrender the Liquidity Facility then in effect to the issuer thereof for cancellation in accordance with its terms or deliver any document necessary to reduce the coverage of such Liquidity Facility due to the delivery of such Alternate Liquidity Facility.

(c) Notice of Termination. The Trustee will give immediate notice to the Tender Agent, the Remarketing Agent and the Owners of the 2018A Bonds of the termination or expiration of any Liquidity Facility in accordance with its terms as provided in the Indenture.

Rights and Duties Under Liquidity Facility. The Tender Agent, by accepting its appointment as such, has agreed without further direction, to make Draw Requests under the Liquidity Facility then in effect, if any, for the payment or purchase of 2018A Bonds in accordance with the terms and conditions set forth in the Indenture and in the Liquidity Facility at the times, in the manner and for the purposes set forth therein. So long as the Liquidity Facility remains in effect for the 2018A Bonds, the Trustee may not waive an Event of Default under the Indenture if a drawing has been made under the Liquidity Facility and not repaid. The District has agreed that the Trustee may enforce all rights of the Trustee and the District and all obligations of the Liquidity Facility Provider under and pursuant to the Liquidity Facility for the benefit of the 2018A Bond Owners. The Trustee has agreed to assume and perform the duties contemplated by the Liquidity Facility to be assumed and performed by the Trustee. If the 2018A Bonds are redeemed in whole or in part, the Trustee will give notice to the Liquidity Facility Provider in the manner required by the Liquidity Facility to reflect the reduction in the principal amount of the 2018A Bonds as a result of such redemption.

Notice of Termination, Event of Default or Other Change in Liquidity Facility. The Trustee will give notice by mail, facsimile or electronic mail to the Owners of the 2018A Bonds secured by a Liquidity Facility: (a) on or before the 30th day preceding the substitution, termination or expiration of such Liquidity Facility (except in the case of a termination resulting from an event referred to in the following paragraph) in accordance with its terms; or (b) in the case of any Mandatory Standby Tender under such Liquidity Facility, as soon as reasonably possible following the receipt by the Trustee of notice of the Mandatory Standby Tender. The notice must be accompanied by directions for the purchase of the 2018A Bonds pursuant to the Indenture. The notice must: (i) state the date of such termination or expiration and the date of the proposed substitution of an Alternate Liquidity Facility (if any); (ii) state that the 2018A Bonds will be purchased pursuant to the Indenture on the Business Day prior to the date of such termination or expiration or substitution (after giving effect to any drawing required to be made thereunder), including any termination as a result of a Mandatory Standby Tender; and (iii) any other information required in the notice to the Owners of the 2018A Bonds by the Indenture. The District will provide the Trustee with written notice of any information required to enable the Trustee to give the foregoing notice.

If there should occur any event resulting in the immediate automatic termination or suspension of the obligation of the Liquidity Facility Provider to purchase 2018A Bonds under the terms of any Liquidity Facility, then the Trustee will as soon as practicably possible thereafter notify the Owners of all of the 2018A Bonds then Outstanding and the Remarketing Agent that: (1) the Liquidity Facility has been terminated or suspended, as the case may be; (2) the Tender Agent will no longer be able to purchase 2018A Bonds with moneys available under the Liquidity Facility; (3) the Liquidity Facility Provider is under no obligation to purchase 2018A Bonds or to otherwise advance moneys to fund the purchase of 2018A Bonds; and (4) unless the District will in its sole discretion provide funds pursuant to the Indenture for the purchase of 2018A Bonds upon the tender thereof, the 2018A Bonds will bear interest at the Maximum Rate until: (I) such Liquidity Facility is reinstated; (II) an Alternate Liquidity Facility is in effect; or (III) the 2018A Bonds are converted to a Long-Term Interest Rate.

Remarketing Agent; Tender Agent.

(a) Remarketing Agent. Each Remarketing Agent appointed by the District will designate its principal office in the Remarketing Agreement. The Remarketing Agent will signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the District, the Trustee, the Tender Agent and the Liquidity Facility Provider, under which the Remarketing Agent will agree, particularly, to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the District, the Trustee, the Tender Agent and the Liquidity Facility Provider at all reasonable times.

(b) Tender Agent. Each Tender Agent appointed by the District will designate to the District, the Trustee, the Liquidity Facility Provider and the Remarketing Agent its principal office for delivery of notices and delivery of 2018A Bonds and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the District, the Trustee, the Liquidity Facility Provider and the Remarketing Agent. By acceptance of its appointment under the Indenture, the Tender Agent has agreed: (i) to hold all 2018A Bonds delivered to it pursuant to the Indenture as agent and bailee of, and in escrow for the benefit of, the respective Beneficial Owners which have delivered such 2018A Bonds until money representing the Purchase Price of such 2018A Bonds has been delivered to or for the Participant account for such Beneficial

Owners; (ii) to hold all 2018A Bonds which have been delivered to it by the Trustee for delivery to the Remarketing Agent; (iii) to deliver Bank Bonds on behalf of the Liquidity Facility Provider as stated in the Indenture; and (iv) to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the Trustee, the District, the Liquidity Facility Provider and the Remarketing Agent at all reasonable times.

Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal of Remarketing Agent and Tender Agent.

(a) Remarketing Agent. The Remarketing Agent must be a member of the Financial Industry Regulatory Authority or an entity that is overseen by the Office of the Comptroller of the Currency, having a combined capital stock, surplus and undivided profits of at least \$50,000,000 and authorized by law to perform all the duties imposed upon it under the Indenture and under the Remarketing Agreement. The Remarketing Agent may at any time resign and be discharged of the duties and obligations under the Indenture by giving notice to the District, the Trustee, the Tender Agent and the Liquidity Facility Provider. Except as otherwise provided below, such resignation will take effect on the 60th day after the receipt by the District of the notice of resignation. The Remarketing Agent may be removed at any time on 45 days prior written notice, by an instrument signed by the District, approved by the Liquidity Facility Provider and delivered to the Remarketing Agent, the Trustee and the Tender Agent. Notwithstanding the foregoing provisions, such resignation or removal will not take effect prior to the date that a successor Remarketing Agent has been appointed by the District with the prior written consent of the Liquidity Facility Provider, and has accepted such appointment, except in the case where: (i) the Remarketing Agent provides 30 days' notice to the District, Trustee, Tender Agent and Liquidity Facility Provider that its fees have not been paid; or (ii) 90 days after receipt by the District of the Remarketing Agent's notice of resignation, a successor Remarketing Agent has not been appointed by the District, and consented to by the Liquidity Facility Provider, nor has such appointment been accepted by a successor Remarketing Agent, in both of which cases the Remarketing Agent may terminate its Remarketing Agreement with the District without a successor being appointed.

(b) Tender Agent. Each Tender Agent must be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$100,000,000 and authorized by law to perform all the duties imposed upon it under the Indenture. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 60 days' notice to the District, the Trustee, the Liquidity Facility Provider and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the District, and filed with the Trustee. However, such resignation or removal will not take effect prior to the date that a successor Tender Agent has been appointed by the District and has accepted such appointment, such appointment has been approved by the Liquidity Facility Provider, and the Liquidity Facility, if any, has been transferred, in accordance with its terms, to that successor. Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent will deliver the Liquidity Facility, any 2018A Bonds and money held by it in such capacity to its successor.

Notice of 2018A Bonds Delivered for Purchase; Purchase of 2018A Bonds; Deposit of Purchase Price.

(a) Determination by Tender Agent; Notice of Tender. For purposes of the Indenture, the Tender Agent will determine timely and proper delivery of 2018A Bonds pursuant thereto and the proper endorsement of 2018A Bonds delivered. Such determination will be binding on the Owners of the 2018A Bonds, the District, the Liquidity Facility Provider and the Remarketing Agent, absent manifest error.

As soon as practicable upon its receipt, but not later than 11:10 a.m., New York City time, on the day of receipt of such notice, the Tender Agent will notify the Remarketing Agent, the Liquidity Facility Provider, the Trustee and the District by telephone, promptly confirmed in writing, or by telecopy, of receipt, in the case of a 2018A Bond bearing interest at a Daily Interest Rate, from an Owner of an Outstanding 2018A Bond of a tender notice, specifying the principal amount of 2018A Bonds for which it has received a tender notice, the names of the Owners thereof and the date on which such 2018A Bonds are to be purchased in accordance therewith.

(b) Purchase of 2018A Bonds; Sources and Deposits of Purchase Price. 2018A Bonds required to be purchased in accordance with the Indenture will be purchased from the Beneficial Owners thereof, on

the Purchase Date and at the Purchase Price according to the operational arrangements of DTC. Funds for the payment of the Purchase Price will be received by the Tender Agent from the following sources and used in the order of priority indicated: (i) proceeds of the sale of 2018A Bonds remarketed pursuant to the Indenture and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; (ii) money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Bond Purchase Fund from Draw Requests on the Liquidity Facility, if any; and (iii) any funds provided by the District for such purpose in its sole discretion (there being no obligation of the District to so provide any such funds).

(c) Undelivered 2018A Bonds; Purchase Price. If a 2018A Bond purchased as provided in the Indenture is not presented to the Tender Agent, the Tender Agent will segregate and hold uninvested the money for the Purchase Price in trust for the benefit of the former Beneficial Owner, who will, except as provided in the following sentences, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Purchase Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Purchase Price of any 2018A Bond which remains unclaimed for two years after the date of purchase will be paid to the District. After the payment of such unclaimed money to the District, the former Beneficial Owner will look only to the District for the payment thereof. The District will not be liable for any interest on unclaimed money and will not be regarded as a trustee of such money.

Remarketing of 2018A Bonds; Notice of Interest Rates.

(a) Remarketing. Upon a mandatory tender (other than a Mandatory Standby Tender) or notice of tender for purchase of 2018A Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such 2018A Bonds at a rate of interest up to the Maximum Rate, subject to the terms of the Remarketing Agreement on the same date designated for purchase at the Purchase Price thereof in accordance with the Indenture and, if not remarketed on such date, thereafter until sold, at the Purchase Price thereof. 2018A Bonds subject to a Mandatory Standby Tender will not be remarketed unless: (1) such 2018A Bonds are in a Long-Term Interest Rate Period to their Maturity Date; (2) an Alternate Liquidity Facility is delivered to the Tender Agent pursuant to the Indenture and is in full force and effect; or (3) the Trustee has received written notice from the Liquidity Facility Provider that all events of default under the Liquidity Facility have been cured and that the Liquidity Facility has been reinstated. No 2018A Bonds may be sold by the Remarketing Agent to or on behalf of the District. If at any time there are Bank Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such Bank Bonds to prospective purchasers at a price equal to that price specified in the Indenture and at interest rates up to and including the Maximum Rate.

(b) Notice of Rates and Terms. The Remarketing Agent will determine the rate of interest with respect to the 2018A Bonds during each Interest Rate Period as provided in the Indenture and will furnish to the Trustee, the District and the Liquidity Facility Provider notice of each rate of interest so determined by telephone or telecopy, promptly confirmed in writing. Notice of each Daily Interest Rate will be made on Friday of each week and on the last Business Day of each month. In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

(c) Notice of Purchase and Remarketing. As soon as practicable, but in any event by no later than 11:45 a.m. New York City time on the Purchase Date with respect to 2018A Bonds in a Daily Interest Rate Period, and on the last Business Day prior to the Purchase Date in the case of 2018A Bonds to be purchased on the first day of an Interest Rate Period, at the option of the District or upon the substitution, termination or expiration of a Liquidity Facility, the Remarketing Agent will inform the Tender Agent by telephone, promptly confirmed in writing, or by written notice, of the principal amount of 2018A Bonds tendered for purchase sold by the Remarketing Agent pursuant to the Indenture and the name, address and taxpayer identification number of each such purchaser, the principal amount of 2018A Bonds to be purchased and the denominations in which such 2018A Bonds are to be delivered.

Promptly upon receipt of such notice from the Remarketing Agent, or if no such notice is received, but in any event by no later than 12:30 p.m. New York City time with respect to 2018A Bonds in a Daily Interest Rate Period on the Purchase Date, following receipt of notice from the Remarketing Agent as set forth above with respect to the amount of 2018A Bonds to be purchased for which funds have been transferred to the Remarketing Agent, or

if no such notice is received, the Tender Agent will: (I) notify the District, the Trustee and the Liquidity Facility Provider by telephone, promptly confirmed in writing, as to the aggregate purchase price of 2018A Bonds to be purchased and as to the amount of the difference between: (A) the total purchase price of such 2018A Bonds with respect to which a notice was received pursuant to the Indenture; and (B) the Purchase Price of such 2018A Bonds to be purchased pursuant to the Indenture that have been remarketed by the Remarketing Agent; and (II) submit a Draw Request under the Liquidity Facility in accordance with the Indenture. A copy of such Draw Request will be mailed by the Tender Agent to the District and the Trustee.

Delivery of Proceeds of Sale. The proceeds of the sale by the Remarketing Agent of any 2018A Bonds will be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund by 12:15 p.m. New York City time on the date of purchase as provided in the Remarketing Agreement.

Bond Purchase Fund. There will be established with and maintained by the Tender Agent a separate trust fund which will be referred to as the “Bond Purchase Fund.” The Tender Agent will further establish within the Bond Purchase Fund a separate trust account to be referred to as a “Remarketing Account” and a separate trust account to be referred to as a “Liquidity Facility Purchase Account.” Each of the Remarketing Account and the Liquidity Facility Purchase Account will be an Eligible Account held in trust for the benefit of the Beneficial Owners and the Liquidity Facility Provider, respectively. In the event that either such account ceases to be an Eligible Account, the Tender Agent will promptly (and in any case, within 30 calendar days) move such account to cause it to be an Eligible Account. In no event is the Tender Agent entitled to a lien on the remarketing proceeds or other cash deposited in the Bond Purchase Fund.

(a) Remarketing Account. Upon receipt of the proceeds of a remarketing of 2018A Bonds on a Purchase Date pursuant to the Indenture, the Tender Agent will deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Purchase Price of such 2018A Bonds in accordance with the Indenture and, if the Tender Agent is not a paying agent with respect to the 2018A Bonds, transmit such proceeds to the Trustee for such application. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent will immediately pay such proceeds to the Liquidity Facility Provider and, until such transfer, such proceeds will be held in trust for the exclusive benefit of the Liquidity Facility Provider, and the District will have no interest therein. The Tender Agent will give notice of such transfer to the District. Moneys in the Remarketing Account will be segregated from all other funds and accounts of the Tender Agent, held uninvested and without liability for interest thereon.

(b) Liquidity Facility Purchase Account. Upon receipt from the Liquidity Facility Provider of the immediately available funds transferred to the Tender Agent pursuant to the Indenture, the Tender Agent will deposit such money in the applicable Liquidity Facility Purchase Account of the Bond Purchase Fund for application to the Purchase Price of the 2018A Bonds required to be purchased on a Purchase Date in accordance with the Indenture to the extent that the money on deposit in the applicable Remarketing Account of the Bond Purchase Fund is not sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Purchase Date for the payment of the Purchase Price for any 2018A Bonds will be immediately returned to the Liquidity Facility Provider and, until such transfer, will be held in trust for the exclusive benefit of the Liquidity Facility Provider and the District will have no interest therein. Moneys in the Liquidity Facility Purchase Account will be segregated from all other funds and accounts of the Tender Agent, held uninvested and without liability for interest thereon.

(c) Disposition of Bank Bonds. Upon receipt by the Tender Agent of 2018A Bonds purchased from moneys on deposit in the Liquidity Facility Purchase Account, such 2018A Bonds will constitute Bank Bonds and will be registered in the name of the Liquidity Facility Provider (or its nominee) and delivered to the Liquidity Facility Provider (or its nominee) (or any subsequent purchaser from the Liquidity Facility Provider) as provided in the Liquidity Facility (or, if such Bank Bonds are held in the book entry system described in the Indenture, credited to the Securities Depository account designated by the Liquidity Facility Provider in accordance with the procedures and requirements of the Securities Depository then in effect. If required by such procedures and requirements, the Trustee will promptly obtain a CUSIP number for the Bank Bonds so that the Bank Bonds may be separately identified by such CUSIP number from all other 2018A Bonds.

Inadequate Funds for Tenders; Event of Default. If sufficient funds are not available for the purchase of all 2018A Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, all 2018A Bonds will bear interest at the Maximum Rate from the date of such failed tender until all such 2018A Bonds are purchased, and all tendered 2018A Bonds will be returned to their respective Owners. Notwithstanding any other provision of the Indenture, such failed purchase and return does not constitute an Event of Default.

ISSUANCE OF 2018A BONDS

Validity of 2018A Bonds. The validity of the authorization and issuance of the 2018A Bonds is not dependent on and will not be affected in any way by any proceedings taken by the District or the Trustee with respect to any other agreement. The recital contained in the 2018A Bonds that the same are issued pursuant to the Constitution and laws of the State is conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Allocation of Net Revenues. There has been established with the Trustee the 2018A Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2018A Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2018A Bonds received by the Trustee pursuant to the Indenture will be promptly deposited by the Trustee upon receipt thereof into the 2018A Payment Fund; except that all moneys received by the Trustee and required thereunder to be deposited in the 2018A Redemption Fund will be promptly deposited therein. All payments of interest and principal on the 2018A Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold a 2018A Interest Account and a 2018A Principal Account within the 2018A Payment Fund.

The Trustee will transfer from the 2018A Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) 2018A Interest Account. Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the 2018A Interest Account that sum, if any, required to cause the aggregate amount on deposit in the 2018A Interest Account to be at least equal to the amount of interest becoming due and payable on the succeeding Interest Payment Date on all 2018A Bonds then Outstanding (including any Bank Bonds). No deposit need be made into the 2018A Interest Account so long as there is in such account moneys sufficient to pay the interest becoming due and payable on such date on all 2018A Bonds then Outstanding.

(b) 2018A Principal Account. Not later than the Business Day preceding each Interest Payment Date on which the principal of the 2018A Bonds (including any Bank Bonds) becomes due and payable under the Indenture, the Trustee will deposit in the 2018A Principal Account that sum, if any, required to cause the aggregate amount on deposit in the 2018A Principal Account to equal the principal amount of the 2018A Bonds coming due and payable on the succeeding Interest Payment Date or subject to mandatory sinking fund redemption on the succeeding Interest Payment Date. No deposit need be made into the 2018A Principal Account so long as there is in such account moneys sufficient to pay the principal becoming due and payable on such date on all 2018A Bonds then Outstanding.

(c) Liquidity Facility Provider Amounts. At any time that payment of principal or interest on the 2018A Bonds is not due and owing, moneys in the 2018A Payment Fund will be used to pay Liquidity Facility Provider Amounts certified by the Liquidity Facility Provider to the District and the Trustee to be due and owing.

(d) Eligible Accounts. In the event that any account required to be an Eligible Account no longer complies with such requirements, the Trustee will promptly (and, in any case, within not more than 30

calendar days) move such account to another financial institution such that the Eligible Account requirement again will be satisfied.

Application of 2018A Interest Account. Except as otherwise provided in the Indenture, all amounts in the 2018A Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2018A Bonds (including any Bank Bonds) as it becomes due and payable (including accrued interest on any 2018A Bonds (including any Bank Bonds) purchased prior to maturity pursuant to the Indenture) or to reimburse the Liquidity Facility Provider on the date thereof for a drawing on the Liquidity Facility under the Indenture to pay interest on the 2018A Bonds.

Application of 2018A Principal Account. Except as otherwise provided in the Indenture, all amounts in the 2018A Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2018A Bonds (including Bank Bonds, if any) at maturity, mandatory sinking fund redemption or purchase or to reimburse the Liquidity Facility Provider on the date thereof for a drawing on the Liquidity Facility under the Indenture to pay the principal component of the Purchase Price of the 2018A Bonds; provided, however, that at any time prior to selection for redemption of any such 2018A Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2018A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the 2018A Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2018A Bonds.

Application of 2018A Redemption Fund. There has been established with the Trustee a special fund designated as the "2018A Redemption Fund." All amounts in the 2018A Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2018A Bonds (including Bank Bonds, if any) to be redeemed on any Redemption Date pursuant to the Indenture (other than mandatory redemption payments described therein) or as required by the Liquidity Facility with respect to Bank Bonds; provided, however, that at any time prior to selection for redemption of any such 2018A Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2018A Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the 2018A Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2018A Bonds. The 2018A Redemption Fund must be an Eligible Account held in trust for the benefit of the Owners.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the District pursuant to a Written Request of the District filed with the Trustee at least two Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee will invest any such moneys in Permitted Investments described in clause (ii)(5) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the 2018A Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund, the Liquidity Facility Purchase Account and the Remarketing Account, which may not be commingled and, as to the Liquidity Facility Purchase Account and the Remarketing Account, which will be held uninvested) held by it under the Indenture upon the Written Request of the District. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The District has acknowledged that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by

law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee under the Indenture or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The District will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee's accounting system.

Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the 2018A Bonds designated the "Rebate Fund" when needed. Absent an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2018A Bonds will not be adversely affected, the District will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2018A Bonds will be governed by the Indenture and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2018A Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (1) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the District; (2) has no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate; (3) may rely conclusively on the District's calculations and determinations and certifications relating to rebate matters; and (4) has no responsibility to independently make any calculations or determinations or to review the District's calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the District will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the foregoing provisions.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the District, an amount will be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the District, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the 2018A Interest Account.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the District, to the United States Treasury, out of amounts in the Rebate Fund: (A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90%

of the Rebatale Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all the 2018A Bonds, an amount equal to 100% of the Rebatale Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatale Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the foregoing provisions will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2018A Bonds and the payments described above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture survive the defeasance or payment in full of the 2018A Bonds.

Application of Funds and Accounts When No 2018A Bonds are Outstanding. On the date on which all 2018A Bonds are retired under the Indenture or provision made therefor pursuant thereto and after payment of all amounts due the Trustee and the Liquidity Facility Provider thereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

PARTICULAR COVENANTS

Punctual Payment. The District will punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2018A Bonds, in strict conformity with the terms of the 2018A Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2018A Bonds. The District may not directly or indirectly extend or assent to the extension of the maturity of any of the 2018A Bonds or the time of payment of any claims for interest by the purchase of such 2018A Bonds or by any other arrangement, and in case the maturity of any of the 2018A Bonds or the time of payment of any such claims for interest is extended, such 2018A Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the 2018A Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the District to issue Bonds for the purpose of refunding any Outstanding 2018A Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2018A Bonds.

Against Encumbrances. The District will not make any pledge of or place any lien on Net Revenues or the moneys in the Subordinate Obligation Payment Fund except as provided in the Indenture. The District may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Indenture. The District may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Net Revenues or any moneys in the Subordinate Obligation Payment Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Power to Issue 2018A Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2018A Bonds, to enter into the Indenture and to pledge and assign the Net Revenues and other

assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2018A Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Net Revenues and other assets and all the rights of the 2018A Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements.

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of all transactions made by it relating to the proceeds of 2018A Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the District and the Liquidity Facility Provider upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The District will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Water and Sewer System, which records will be available for inspection by the Trustee (which has no duty to inspect such records) and the Liquidity Facility Provider at reasonable hours and under reasonable conditions.

(c) The District will prepare and file with the Trustee and the Liquidity Facility Provider, if any, annually within 270 days of each Fiscal Year (commencing with the Fiscal Year ended June 30, 2018) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an Opinion of Bond Counsel that the exclusion from gross income of the interest on the 2018A Bonds will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2018A Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action, and the District make no use of the proceeds of the 2018A Bonds or of any other moneys or property which would cause the 2018A Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the 2018A Bonds or of any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action, which will cause the 2018A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the 2018A Bonds or take or omit to take any action that would cause the 2018A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2018A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2018A Bonds or any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action that would cause the 2018A Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section

149(g) of the Code to maintain the exclusion from gross income of interest on the 2018A Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will not take any action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the 2018A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing contained in the Indenture will be deemed to prevent the District from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the 2018A Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Waiver of Laws. The District will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the 2018A Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the District to the extent permitted by law.

Further Assurances. The District will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2018A Bonds of the rights and benefits provided in the Indenture.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the District by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay principal of or interest on the 2018A Bonds; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in the Liquidity Facility and all other contracts affecting or involving the Water and Sewer System, to the extent that the District is a party thereto.

Prosecution and Defense of Suits. The District will promptly, upon request of the Trustee, the Liquidity Facility Provider, if any, or any 2018A Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water and Sewer System or any part thereof, whether now existing or later developing, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and indemnify and save the Trustee (including all of its employees, officers and directors), the Trustee, the Liquidity Facility Provider, if any, and every 2018A Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2018A Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2018A Bonds or involving the rights of the Trustee or any 2018A Bond Owner under the Indenture; provided that the Trustee or any 2018A Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The District will indemnify and hold harmless the Trustee and the 2018A Bond Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and indemnify and hold harmless the 2018A Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by

reason of ownership of 2018A Bonds. The District will promptly reimburse any 2018A Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2018A Bonds, provided that such litigation is concluded favorably to such party's contentions therein.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed by the District in connection with the issuance of the 2018A Bonds. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, 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 the foregoing obligations. For purposes of the Indenture, in addition to the definition set forth therein, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2018A Bonds (including persons holding 2018A Bonds through nominees, depositories or other intermediaries).

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Revenues for the payment of the principal of and interest on the 2018A Bonds, or which would otherwise impair the operation of the Water and Sewer System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the principal of and interest on the 2018A Bonds and if the proceeds of such sale are deposited in the Water and Sewer Revenue Fund.

Nothing in the Indenture restricts the ability of the District to sell any portion of the Water and Sewer System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water and Sewer System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water and Sewer System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the District has covenanted that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water or sewer system competitive with the Water and Sewer System.

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

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the District pledged to pay the principal of or interest on the 2018A Bonds or to the Owners prior or superior to the lien under the Indenture.

Insurance. (a) The District will procure and maintain or cause to be procured and maintained insurance on the Water and Sewer System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water and Sewer System) as are usually covered in connection with facilities similar to the Water and Sewer System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water and Sewer System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water and Sewer System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Water and Sewer System is free and clear of all claims and liens.

(b) The District will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2018A Bond Owners, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with municipal water and sewer systems similar to the Water and Sewer System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water and sewer systems similar to the Water and Sewer System and is, in the opinion of an accredited actuary, actuarially sound.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System, or any part thereof or upon the Net Revenues when the same 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 Water and Sewer System, or any part thereof, but the District is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water and Sewer Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water and Sewer System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied to the acquisition and construction of additions, betterments, extensions or improvements to the Water and Sewer System, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Water and Sewer Revenue Fund.

Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay principal of and interest on the 2018A Bonds.

Additional Parity Obligations. The District may enter into additional Parity Obligations in accordance with the Master Resolution at any time.

EVENTS OF DEFAULT AND REMEDIES OF 2018A BOND OWNERS

Events of Default. The following events are Events of Default under the Indenture:

(a) Default by the District in the due and punctual payment of the principal of any 2018A Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.

(b) Default by the District in the due and punctual payment of any installment of interest on any 2018A Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same become due and payable.

(c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2018A Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default has continued for a period of 60 days after written notice thereof specifying such default and requiring the same to be remedied has been given to the District by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2018A Bonds Outstanding, a majority in principal amount of such Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the District within such 60 day period and

diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

(d) The Liquidity Facility Provider, if any, has notified the Trustee that an “Event of Default” or “Default” has occurred and is continuing under the Liquidity Facility.

(e) The District files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Trustee may, with the written consent of the Liquidity Facility Provider and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2018A Bonds at the time Outstanding, will, in each case except an Event of Default specified in clause (e) above, upon notice in writing to the District:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the District or any director, officer or employee of the District, and compel the District or any such director, officer or employee of the District to observe or perform its duties under applicable law and the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by it;

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

(c) by suit in equity upon the happening of any default under the Indenture require the District and the directors, officers and employees of the District to account as the trustee of an express trust.

The Trustee and the Owners have no right to accelerate the principal of or interest on the 2018A Bonds.

Notwithstanding anything contained in the Indenture, the Owners of the 2018A Bonds do not have a security interest in or mortgage on the Water and Sewer System or any other assets of the District other than the Net Revenues, the Subordinate Obligation Payment Fund and the other funds and accounts created under the Indenture, and no Event of Default thereunder will result in the loss of the Water and Sewer System or any other assets of the District other than the Net Revenues, the Subordinate Obligation Payment Fund and the other funds and accounts created thereunder.

Notwithstanding anything contained in the Indenture, the Liquidity Facility Provider are entitled upon an Event of Default to exercise such rights and remedies available to it as are set forth in the Liquidity Facility, provided that the Liquidity Facility Provider has no right to accelerate the principal of or interest on the 2018A Bonds.

Application of Net Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Net Revenues held or thereafter received by the Trustee and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) will be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2018A Bonds, the Contracts and the Bonds and the Liquidity Facility Provider and to the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of any expenses of the Liquidity Facility Provider, if any, incurred in and about the performance of its powers and duties in connection with such Event of Default;

(c) To the payment of the principal of and interest then due on the 2018A Bonds (upon presentation of the 2018A Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to the Contracts in accordance with the provisions thereof and the payment of the principal of and interest then due on the Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority: First: To the payment to the persons entitled thereto of all installments of interest then due on the 2018A Bonds (including Bank Bonds), with respect to the Contracts or on the Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and Second: To the payment to the persons entitled thereto of the unpaid principal of any 2018A Bonds (including any Bank Bonds), principal with respect to the Contracts or principal of the Bonds, as applicable, which have become due, whether at maturity or by redemption, and, if the amount available is not sufficient to pay in full all of the 2018A Bonds, all amounts due under the Contracts or all of the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference;

(d) To the payment of any remaining amounts owing to the Liquidity Facility Provider, if any, under the Liquidity Facility; and

(e) If there exists any remainder after the foregoing payments, such remainder will be paid to the District.

Trustee to Represent 2018A Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2018A Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2018A Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2018A Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2018A Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2018A Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2018A Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee is entitled, as a matter of right, to the appointment of a receiver of the Net Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2018A Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2018A Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all of the Owners of such 2018A Bonds, subject to the provisions of the Indenture.

2018A Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2018A Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction may not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2018A Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2018A Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2018A Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 50% in aggregate principal amount of the 2018A Bonds then Outstanding

have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the 2018A Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission have been declared, in every case, to be conditions precedent to the exercise by any Owner of 2018A Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2018A Bonds have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2018A Bonds, or to enforce any right under the 2018A Bonds, the Indenture, or applicable law with respect to the 2018A Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2018A Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the District. Nothing in any provision of the Indenture or in the 2018A Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2018A Bonds to the respective Owners of the 2018A Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets therein pledged therefor, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2018A Bonds.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee, the Liquidity Facility Provider or the Owners of the 2018A Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee, the Liquidity Facility Provider or any Owner of the 2018A Bonds to exercise any right or power arising upon the occurrence of any Event of Default impairs any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

Liquidity Facility Provider Control and Remedies. Anything in the Indenture to the contrary notwithstanding, including, without limitation, any other provision vesting in or conferring upon or purporting to vest in or confer upon the Trustee or the Owners any right, remedy, authority or discretion, during any time that the Trustee holds a Liquidity Facility under the Indenture and the Liquidity Facility Provider has not failed to honor a drawing made in strict conformity with the terms of such Liquidity Facility, the Liquidity Facility Provider has the sole and exclusive right: (a) to declare any Event of Default and rescind any declaration of an Event of Default; (b) to determine the decision of, and direct the exercise of any right of, direction, consent, or approval under any provision of the Indenture by the Trustee; (c) to direct the time, manner and method of conducting all proceedings in connection with any right or remedy available to the Trustee under the Indenture and to exercise any power or right granted to the Trustee or the Owners thereunder; and (d) to take any and all actions to enforce the Indenture and the 2018A Bonds, in its own name or, upon providing reasonable indemnity for costs or liabilities arising therefrom, in the name of the Trustee. Any costs incurred by the Liquidity Facility Provider in connection with any such action on its part will be treated as costs of the Trustee and will be subject to the same repayment, lien and security rights. Each of the provisions of the Indenture will be subject to and governed by the terms thereof.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. (a) The Trustee will, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties may be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of

care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The District, with the prior written consent of the Liquidity Facility Provider may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Liquidity Facility Provider, if any, or the Owners of not less than a majority in aggregate principal amount of the 2018A Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon the District will promptly appoint a successor Trustee by an instrument in writing. The Trustee may also be removed at any time upon request of the Liquidity Facility Provider, if any, for any breach of the trust set forth in the Indenture.

(c) The Trustee may at any time resign by giving written notice of such resignation to the District and the Liquidity Facility Provider, if any, and by giving the 2018A Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will require the written consent of the Liquidity Facility Provider and will become effective upon acceptance of appointment by the successor Trustee, the receipt of all funds and accounts created under and held by the Trustee under the Indenture, and receipt by the successor Trustee of any Liquidity Facility. If no successor Trustee has been appointed and accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2018A Bond Owner (on behalf of himself and all other 2018A Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the District will mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each Rating Agency which is then rating the 2018A Bonds and to the 2018A Bond Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the District.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee must be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least \$100,000,000, and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated, any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it is a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank is eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the 2018A Bonds will be taken as statements of the District, and the Trustee does not assume responsibility for the correctness of the same or make any representations as to the validity or sufficiency of the Indenture or the 2018A Bonds, nor does the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the 2018A Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2018A Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2018A Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2018A Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2018A Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2018A Bonds at the time Outstanding or the Liquidity Facility Provider, if any, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default (other than a payment default) under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default thereunder unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the District or the Owners of not less than 50% of the 2018A Bonds then Outstanding or by the Liquidity Facility Provider. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements in the Indenture or any of the documents executed in connection with the 2018A Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions thereof.

(i) The Trustee has no responsibility or liability with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2018A Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence affecting the Trustee's ability to perform its obligations under the Indenture, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Water and Sewer System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured electronic mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee electronic mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. The District has agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions and the risk of interception and misuse by third parties.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty and it will not be answerable for other than its negligence or willful misconduct.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2018A Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2018A Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the District, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable. In determining whether any action to be taken under the Indenture may be adverse to the 2018A Bond Owners, the existence of the Liquidity Facility, if any, will be disregarded.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the District, the Liquidity Facility Provider and any 2018A Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The District will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The District will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust thereof, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The foregoing rights of the Trustee and the obligations of the District will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2018A Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted. (a) The Indenture and the rights and obligations of the District, the Owners of the 2018A Bonds and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the District and the Trustee may enter into when the written consent of the Liquidity Facility Provider and the Owners of a majority in aggregate principal amount of all 2018A Bonds then Outstanding, exclusive of 2018A Bonds disqualified as provided in the Indenture, have been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2018A Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2018A Bond so affected; or (2) reduce the aforesaid percentage of 2018A Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2018A Bonds of the lien created by the Indenture on such Net Revenues and other assets except as permitted in the Indenture, without the consent of the Owners of all of the 2018A Bonds then Outstanding. It is not necessary for the consent of the 2018A Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2018A Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the District, the Owners of the 2018A Bonds and the Trustee may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any 2018A Bond Owners, but with the written consent of the Liquidity Facility Provider, including, without limitation, for any one or more of the following purposes: (1) to add to the covenants and agreements of the District contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2018A Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the District; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and (4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2018A Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an Opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2018A Bonds from federal income taxation and from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee, the Liquidity Facility Provider and all Owners of 2018A Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all of the terms and conditions of any such Supplemental Indenture are deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of 2018A Bonds; Preparation of New 2018A Bonds. 2018A Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2018A Bonds Outstanding at the time of such execution and presentation of his or her 2018A Bonds for such purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for such purpose, a suitable notation will be made on such 2018A Bonds. If the Supplemental Indenture so provides, new 2018A Bonds so modified as to conform, in the opinion of the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any 2018A Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2018A Bond Owner, for 2018A Bonds then Outstanding, upon surrender for cancellation of such 2018A Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2018A Bonds. The provisions of the Indenture do not prevent any 2018A Bond Owner from accepting any amendment as to the particular 2018A Bonds held by him or her.

DEFEASANCE

Discharge of Indenture. The 2018A Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable under the Indenture by the District: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2018A Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all 2018A

Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2018A Bonds then Outstanding.

If the District also pays or causes to be paid all other sums payable under the Indenture by the District and all Liquidity Facility Provider Amounts, then and in that case, at the election of the District (as evidenced by a Certificate of the District filed with the Trustee signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding that any 2018A Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the District under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and, after all obligations under the Liquidity Facility have been paid in full, the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2018A Bonds or the payment of Liquidity Facility Provider Amounts not theretofore surrendered for such payment or redemption to the District.

Discharge of Liability on 2018A Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding 2018A Bonds (whether upon or prior to the maturity or the Redemption Date of such 2018A Bonds), provided that, if such Outstanding 2018A Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee have been made for the giving of such notice, then all liability of the District in respect of such 2018A Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The District may at any time surrender to the Trustee for cancellation by it any 2018A Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2018A Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2018A Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be: (a) lawful money of the United States of America in an amount equal to the principal amount of such 2018A Bonds and all unpaid interest thereon to maturity, except that, in the case of 2018A Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2018A Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or (b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the District and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2018A Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2018A Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice; provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the District) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2018A Bonds; (ii) the District has delivered to the Trustee an Opinion of Bond Counsel addressed to the District and the Trustee to the effect that such 2018A Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above); and (iii) in the event of an advance refunding with respect to 2018A Bonds in a Daily Interest Rate Period, the District has received a letter from each Rating Agency then maintaining a short-term rating for the 2018A Bonds to the effect that the deposit described in the Indenture will not result in a reduction or withdrawal of such Rating Agency's short-term rating for the 2018A Bonds (unless such requirement is waived by the applicable Rating Agency).

Notwithstanding the foregoing, in the case of 2018A Bonds in a Daily Interest Rate Period, such 2018A Bonds will be deemed to have been paid within the meaning of and with the effect expressed in the Indenture only if the interest due on such 2018A Bonds on or prior to the earlier of: (i) the Maturity Date; (ii) the next optional or mandatory redemption date; or (iii) the next optional or mandatory tender date thereof, as the case may be, is calculated at the Maximum Rate; provided, however, that if on any date, as a result of any such 2018A Bonds having borne interest at less than the Maximum Rate for any period, the total amount of moneys and securities required for deposit with the Trustee, escrow agent or other fiduciary for the payment of interest on the 2018A Bonds is in excess of the total amount which would have been required to be deposited with the Trustee, escrow agent or other fiduciary in accordance with the Indenture, such person will, if requested by the District, and if all Liquidity Facility Provider Amounts have been paid in full, pay the amount of such excess to the District free and clear of any trust, lien, pledge or assignment securing such 2018A Bonds or otherwise existing under the Indenture. The Trustee, escrow agent or other fiduciary may not pay any such excess to the District unless the Trustee, escrow agent or other fiduciary and the Liquidity Facility Provider receives a certificate and verification report from an Independent Certified Public Accountant that such an excess exists and specifying the amount of such excess.

Payment of 2018A Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2018A Bonds and remaining unclaimed for two years after the principal of all of the 2018A Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the 2018A Bonds became due and payable, will be paid to the Liquidity Facility Provider, if any (to the extent that the Liquidity Facility Provider certifies and provides three Business Days' written notice to the District, that the District owes amounts to the Liquidity Facility Provider under the Liquidity Facility), and thereafter will be repaid to the District free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2018A Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the payment of such moneys to the Liquidity Facility Provider or the repayment of such moneys to the District, as applicable, as described above, the Trustee will at the written direction of the District (at the cost of the District) first mail to the Owners of 2018A Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2018A Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

MISCELLANEOUS

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the District or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all of the covenants and agreements contained in the Indenture by or on behalf of the District or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2018A Bond Owners. Nothing expressed or implied in the Indenture or in the 2018A Bonds is intended or will be construed to give to any person other than the District, the Liquidity Facility Provider, if any, the Trustee and the Owners of the 2018A Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the District, the Liquidity Facility Provider, if any, the Trustee and the Owners of the 2018A Bonds. Notwithstanding the foregoing, the Liquidity Facility Provider will be an express third party beneficiary of the Indenture, entitled but not obligated to enforce each of the covenants and provisions thereof and to exercise any of the remedies therein provided or available at law or in equity in accordance with the terms of the Indenture.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by

mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2018A Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2018A Bonds, the Trustee will destroy such 2018A Bonds as may be allowed by law, and deliver a certificate of such destruction to the District.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2018A Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed to be severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The District has declared that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2018A Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of 2018A Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2018A Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2018A Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2018A Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the District if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of 2018A Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2018A Bond will bind every future Owner of the same 2018A Bond and the Owner of every 2018A Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

Disqualified 2018A Bonds. For the purpose of any drawing under the Liquidity Facility and in determining whether the Owners of the requisite aggregate principal amount of 2018A Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2018A Bonds which are known by the Trustee to be owned or held by or for the account of the District, or by any other obligor on the 2018A Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2018A Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2018A Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2018A Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2018A Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the District will certify to the Trustee those 2018A Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate. Notwithstanding anything to the contrary in the Indenture, the Purchase Price of Bank Bonds will not be payable from draws on the Liquidity Facility.

Money Held for Particular 2018A Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2018A Bonds (or portions of 2018A Bonds in the case of registered 2018A Bonds redeemed in part only) will, on and after such date and pending such payment, be

set aside on its books and held in trust by it for the Owners of the 2018A Bonds entitled thereto, subject, however, to the provisions of the Indenture, but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the 2018A Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the District will be individually or personally liable for the payment of the principal of or premium or interest on the 2018A Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture will relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the District are liable for any defect or inaccuracy in the CUSIP number that appears on any 2018A Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2018A Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2018A Bondholders and that neither the District nor the Trustee will be liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE.

Paired Obligation Provider Guidelines. For purposes of the Indenture, Paired Obligations will comply with the following conditions: (a) A Paired Obligation Provider will initially have a long-term rating (the "Initial Rating Requirement") of any two of the following: (i) A- or better by S&P; (ii) A- or better by Fitch; and (iii) A3 or better by Moody's. (b) So long as the long-term rating of the Paired Obligation Provider is not reduced below: (i) BBB by S&P; (ii) BBB by Fitch; or (iii) Baa2 by Moody's (the "Minimum Rating Requirement"), the interest rate of such Paired Obligation will be deemed to be equal to the effective interest rate payable by the District with respect to such Paired Obligation for purposes of the Indenture. In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the District does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within 30 Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of the Indenture without regard to payments to be received from the Paired Obligation Provider.

Notice to Rating Agencies. The Trustee will give prompt notice to each Rating Agency of each of the following: (a) expiration or early termination of the Liquidity Facility; (b) extension of the term of the Liquidity Facility; (c) delivery of an Alternate Liquidity Facility; (d) Conversion of the 2018A Bonds to a new Interest Rate Period; (e) Conversion of 2018A Bonds to an Interest Rate Period which does not require a Liquidity Facility; (f) an amendment to the Indenture or the Liquidity Facility; (g) redemption or defeasance of all or a portion of the 2018A Bonds; and (h) any replacement of the Tender Agent, the Trustee or the Remarketing Agent. Notices to S&P will be delivered via electronic mail to the following address: pubfin_structured@spglobal.com, and by such other means as requested by S&P.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2018A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

September 27, 2018

Eastern Municipal Water District
2270 Trumble Road
Perris, California 92572-8300

Re: \$94,455,000 Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018A

Members of the Board of Directors:

We have examined a certified copy of the record of the proceedings of the Eastern Municipal Water District (the "District") relative to the issuance of the \$94,455,000 Refunding Water and Wastewater Revenue Bonds, Series 2018A, dated the date hereof (the "2018A Bonds"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchaser of the 2018A Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2018A Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2018 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"). The 2018A Bonds mature on the date and in the amount referenced in the Indenture. The 2018A Bonds are dated their date of delivery and bear interest payable on the dates and at the rates per annum referenced in the Indenture. The 2018A Bonds are registered in the form set forth in the Indenture.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings of the District show lawful authority for the issuance and sale of the 2018A Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2018A Bonds and the Indenture are valid and binding obligations of the District enforceable against the District in accordance with their terms.

2. The Indenture creates a valid pledge of that which it purports to create, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. The obligation of the District to make the payments of principal of and interest on the 2018A Bonds from Net Revenues (as defined in the Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest

on the 2018A 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.

4. Interest on the 2018A Bonds is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of interest on the 2018A Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that 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 2018A Bonds to assure that such interest on the 2018A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2018A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2018A Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the 2018A Bonds terminates on the date of their issuance. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the 2018A Bonds for federal income tax purposes with respect to any 2018A Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2018A Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 2018A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is 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.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2018A Bonds or other offering material relating to the 2018A Bonds and expressly disclaim any duty to advise the owners of the 2018A Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2018A Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2018A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2018A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2018A Bonds. The 2018A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for the 2018A Bonds, each in the aggregate principal amount of the 2018A Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2018A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2018A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018A 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 bonds representing their ownership interests in 2018A Bonds, except in the event that use of the book-entry system for the 2018A Bonds is discontinued.

To facilitate subsequent transfers, all 2018A 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 2018A 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 2018A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018A 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 holding 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 2018A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2018A Bond documents. For example, Beneficial Owners of 2018A Bonds may wish to ascertain that the nominee holding the 2018A 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 2018A 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 2018A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 2018A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments with respect to the 2018A 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 a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the 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 District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2018A Bonds purchased or tendered, through its participant, to the Tender Agent, and shall effect delivery of such securities by causing the Direct Participant to transfer the Participant's interest in the 2018A Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2018A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2018A Bonds are transferred by Direct Participants or DTC's records and followed by book-entry credit of tendered 2018A Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2018A 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, 2018A Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2018A Bonds will be printed and delivered.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the issuance of the 2018A Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Eastern Municipal Water District (the “District”) in connection with the issuance of its \$94,455,000 Refunding Water and Wastewater Revenue Bonds, Series 2018A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2018 (the “Indenture”), by and between U.S. Bank National Association, as trustee, and the District. The District covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

Annual Report. The term “Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated September 26, 2018 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The District shall provide not later than 210 days following the end of its Fiscal Year (commencing with Fiscal Year 2018) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be

submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Comprehensive Annual Financial Report of the District for the prior Fiscal Year, which shall include audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the Comprehensive Annual Financial Report, updated versions of financial information and operating data relating to the District of the type contained in the Official Statement, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

(i) Appendix A under the caption “THE DISTRICT—Debt Structure of the District—Table 4;”

(ii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Table 6;”

(iii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production—Tables 7, 8 and 9;”

(iv) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Deliveries—Table 10;”

(v) Appendix A under the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities—Table 11;”

(vi) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues;”

(vii) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues;” and

(viii) Appendix A under the caption “HISTORICAL OPERATING RESULTS—Table 19.”

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

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

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond Holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

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

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

7. Termination of Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% in aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: September 27, 2018

EASTERN MUNICIPAL WATER DISTRICT

By: _____
Its: General Manager