NEW ISSUE – BOOK-ENTRY ONLY RATINGS: See the caption "RATINGS"

$209,230,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2016A

Dated: Date of Issuance Due: July 1, as set forth on inside cover page

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

The 2016A Bonds are subject to optional redemption and mandatory sinking fund redemption, all as more fully described herein.

The 2016A Bonds are being issued pursuant to the Indenture of Trust, dated as of April 1, 2016, by and between Eastern Municipal Water District and U.S. Bank National Association, as trustee, to prepay all of the outstanding Eastern Municipal Water District Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2006A and certain Parity State Loans entered into by the District, and to pay costs of issuance of the 2016A Bonds, all as more fully described herein.

The obligation of the District to pay principal of and interest on the 2016A 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 $434,723,618; and (ii) on a parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of $272,710,000 and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. The District may incur additional obligations payable on a senior basis to the 2016A Bonds, subject to the terms and conditions of the Master Resolution, as more fully described herein. The District may also incur additional obligations payable from Net Revenues on a parity with the 2016A Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2016A BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES OF THE DISTRICT'S WATER AND SEWER SYSTEM, CONSISTING OF WATER AND SEWER REVENUES REMAINING AFTER PAYING MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, AND FROM 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. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE DISTRICT ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE 2016A BONDS.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2016A 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 2016A 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.

MATURITY SCHEDULE
(See inside front cover page)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2016A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016A Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" with respect to tax consequences relating to the 2016A Bonds.

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 2016A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the valid, legal and binding nature of the 2016A 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 Lemieux & O'Neill, Westlake Village, California, for the Underwriters by their counsel, Nixon Peabody LLP, and for the Trustee by its counsel. It is anticipated that the 2016A Bonds will be available for delivery through the facilities of The Depository Trust Company on or about April 5, 2016.

Citigroup

BofA Merrill Lynch Stifel

Dated: February 25, 2016

$209,230,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2016A

MATURITY SCHEDULE

Maturity (July 1)	Principal Amount	Interest Rate	Yield	Price
2016	$ 3,900,000	2.000%	0.170%	100.436
2017	5,010,000	5.000	0.420	105.652
2018	5,260,000	4.000	0.540	107.688
2019	5,460,000	5.000	0.680	113.814
2020	5,765,000	5.000	0.800	117.469
2021	8,430,000	5.000	0.930	120.762
2022	8,880,000	5.000	1.110	123.383
2023	9,010,000	5.000	1.310	125.402
2024	5,775,000	5.000	1.520	126.850
2025	6,050,000	5.000	1.690	128.200
2026	6,355,000	5.000	1.840	129.364
2027	6,695,000	5.000	1.990	127.754*
2028	7,025,000	5.000	2.120	126.378*
2029	7,385,000	5.000	2.210	125.436*
2030	7,765,000	5.000	2.290	124.606*
2031	8,160,000	5.000	2.380	123.679*
2032	8,575,000	5.000	2.450	122.964*
2033	9,005,000	5.000	2.510	122.355*
2034	9,460,000	5.000	2.570	121.750*
2035	9,940,000	5.000	2.620	121.248*
2036	5,235,000	5.000	2.670	120.749*
2037	5,510,000	5.000	2.720	120.252*
2038	5,790,000	5.000	2.770	119.758*
2039	6,085,000	5.000	2.820	119.266*

$20,195,000 5.000% Term 2016A Bond maturing July 1, 2042, Yield 2.890%, Price 118.581*
$22,510,000 5.000% Term 2016A Bond maturing July 1, 2045, Yield 2.930%, Price 118.192*

* Priced to first optional redemption date of July 1, 2026 at par.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriters to give any information or to make any representations in connection with the offer or sale of the 2016A 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 Underwriters. 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 2016A 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 2016A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriters have provided the following sentence for inclusion in this Official Statement:

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

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 2016A 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 2016A BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2016A 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 2016A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2016A 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 2016A Bonds.

EASTERN MUNICIPAL WATER DISTRICT

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

BOARD OF DIRECTORS OF THE DISTRICT

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

DISTRICT STAFF

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

DISTRICT GENERAL COUNSEL

Lemieux & O'Neill
Westlake Village, California

BOND COUNSEL

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

FINANCIAL ADVISOR

Public Financial Management Inc.
Los Angeles, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Robert Thomas CPA, LLC
Shawnee Mission, Kansas

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$209,230,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2016A

INTRODUCTION

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2016A (the "2016A Bonds"). Descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in Appendix C.

The 2016A Bonds are being issued by Eastern Municipal Water District (the "District") pursuant to the Indenture of Trust, dated as of April 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"), to provide funds to prepay all of the outstanding Eastern Municipal Water District Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2006A (the "2006A Certificates") and certain Parity State Loans (as such term is defined in Appendix C) entered into by the District, and to pay costs of issuance of the 2016A 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 2016A 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 2016A BONDS."

The obligation of the District to pay principal of and interest on the 2016A Bonds is:

(i) subordinate to the obligation of the District to make payments on Parity Obligations (as such term is defined in Appendix C) of the District, which are currently outstanding in the aggregate principal amount of $434,723,618; and

(ii) on a parity with the obligation of the District to make payments on certain Contracts and Bonds (as such terms are defined in Appendix C) of the District, which are currently outstanding in the aggregate principal amount of $272,710,000, and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements (such Contracts, Bonds and interest rate swap agreements being collectively referred to in this Official Statement as the "Subordinate Obligations").

See Appendix A under the caption "THE DISTRICT—Debt Structure of the District."

The District may incur additional Parity Obligations, which are payable on a senior basis to the 2016A Bonds, subject to the terms and conditions of the Master Resolution, as more fully described under the caption "SECURITY FOR THE 2016A BONDS—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution." The District may also incur additional Subordinate Obligations, which are payable from Net Revenues on a parity with the 2016A Bonds, subject to the terms and conditions of the Indenture, as more fully described under the caption "SECURITY FOR THE 2016A BONDS—Additional Obligations—Issuance of Additional Subordinate Obligations under Indenture."

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds (the "Continuing Disclosure Certificate"), the Escrow Agreement (as such term is defined under the caption "THE REFUNDING PLAN") and all other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by the provisions of the full such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Perris, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Master Resolution 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 2016A Bond Owner can obtain a copy of publicly available information from the District. Additional information concerning the Official Statement may be obtained by contacting the Trustee or the District's Director of Finance, P.O. Box 8300, Perris, California 92572-8300, Telephone (951) 928-3777.

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

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

Changes have been made to this Official Statement since the Preliminary Official Statement dated February 18, 2016: (i) to reflect comments from received from the Trustee on the Indenture; (ii) to reflect the appointment of MUFG Union Bank, N.A. as escrow agent; and (iii) under the caption "CONTINUING

DISCLOSURE" to reflect updated information with respect to the District's prior compliance with its continuing disclosure obligations.

THE REFUNDING PLAN

2006A Certificates

The 2006A Certificates, which are currently outstanding in the aggregate principal amount of $90,180,000, were executed and delivered pursuant to a 2006A Trust Agreement, dated as of February 1, 2006 (the "2006A Trust Agreement"), by and among the District, the Eastern Municipal Water District Facilities Corporation (the "Corporation") and MUFG Union Bank, N.A., as successor trustee (the "2006A Trustee"). The 2006A Certificates are payable from installment payments made by the District under the 2006A Installment Sale Agreement, dated as of February 1, 2006 (the "2006A Installment Sale Agreement"), by and between the District and the Corporation. The District plans to apply a portion of the proceeds of the 2016A Bonds to pay the 2006A Certificates maturing on July 1, 2016 and to prepay the 2006A Certificates maturing after July 1, 2016.

Under an Escrow Agreement (2006A Certificates), dated as of April 1, 2016 (the "2006A Escrow Agreement"), by and between the District and the 2006A Trustee, as escrow agent, the District will deliver a portion of the proceeds of the 2016A Bonds to the 2006A Trustee for deposit in the escrow fund established under the 2006A Escrow Agreement (the "2006A Escrow Fund"). The 2006A Trustee will invest a portion of the amounts so deposited in the 2006A Escrow Fund in Federal Securities (as described in the 2006A Escrow Agreement). From the maturing principal of the Federal Securities and related investment income and any uninvested moneys on deposit in the 2006A Escrow Fund, the 2006A Trustee will pay on July 1, 2016: (i) the interest and principal with respect to the 2006A Certificates maturing on July 1, 2016; and (ii) the principal with respect to the 2006A Certificates maturing after July 1, 2016, plus interest accrued to such date, without premium (the "2006A Prepayment Price").

Sufficiency of the deposits in the 2006A Escrow Fund for such purposes will be verified by Robert Thomas CPA, LLC, Shawnee Mission, Kansas (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2006A Escrow Agreement, the 2006A Certificates will be defeased pursuant to the provisions of the 2006A Installment Sale Agreement and the 2006A Trust Agreement as of the date of issuance of the 2016A Bonds.

The amounts held by the 2006A Trustee in the 2006A Escrow Fund are pledged solely to the payment of the 2006A Certificates and will not be available for the payments on the 2016A Bonds.

Verification of Mathematical Computations

Upon the issuance of the 2016A Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriters relating to: (a) the adequacy of the moneys deposited in the 2006A Escrow Fund to pay the interest and principal with respect to the 2006A Certificates maturing on July 1, 2016 and the 2006A Prepayment Price of the 2006A Certificates maturing after July 1, 2016; and (b) the computations of yield of the 2016A Bonds which support Bond Counsel's opinion that the interest on the 2016A Bonds is excluded from gross income for federal income tax purposes.

State Loans

Sun City Pipeline Proposition 204 State Loan. The District entered into Contract Number E65002, dated May 25, 2000 (the "Sun City Pipeline Proposition 204 State Loan"), with the California Department of Water Resources ("DWR"), which is currently outstanding in the principal amount of approximately $880,097, to finance certain capital improvements to the Water and Sewer System. On the date of issuance of the 2016A

Bonds, the City will deliver a portion of the proceeds of the 2016A Bonds which are sufficient to pay all outstanding amounts under the Sun City Pipeline Proposition 204 State Loan to the Trustee. The Trustee will apply such moneys to pay all outstanding amounts under the Sun City Pipeline Proposition 204 State Loan on the date of issuance of the 2016A Bonds at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

Sun City Pipeline Proposition 82 State Loan. The District entered into Contract Number E64010, dated May 25, 2000 (as amended by Amendment No. 1, dated November 13, 2002, the "Sun City Pipeline Proposition 82 State Loan"), with DWR, which is currently outstanding in the principal amount of approximately $1,388,904, to finance certain capital improvements to the Water and Sewer System. On the date of issuance of the 2016A Bonds, the City will deliver a portion of the proceeds of the 2016A Bonds which are sufficient to pay all outstanding amounts under the Sun City Pipeline Proposition 82 State Loan to the Trustee. The Trustee will apply such moneys to pay all outstanding amounts under the Sun City Pipeline Proposition 82 State Loan on the date of issuance of the 2016A Bonds at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

Temecula Valley RWRF State Loan. The District entered into a Project Finance Agreement (State Revolving Fund No. C-06-5312-110), dated May 11, 2011 (as amended by Amendment No. 1, dated July 27, 2011, the "Temecula Valley RWRF State Loan"), with the California State Water Resources Control Board (the "SWRCB"), which is currently outstanding in the principal amount of approximately $17,625,066, to finance certain capital improvements to the Water and Sewer System. On the date of issuance of the 2016A Bonds, the City will deliver a portion of the proceeds of the 2016A Bonds which are sufficient to pay all outstanding amounts under the Temecula Valley RWRF State Loan to the Trustee. The Trustee will apply such moneys to pay all outstanding amounts under the Temecula Valley RWRF State Loan on the date of issuance of the 2016A Bonds at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

San Jacinto Valley RWRF State Loan. The District entered into a Project Finance Agreement (State Revolving Fund No. C-06-5159-110), dated March 23, 2011 (the "San Jacinto Valley RWRF State Loan"), with the SWRCB, which is currently outstanding in the principal amount of approximately $147,851,349, to finance certain capital improvements to the Water and Sewer System. On the date of issuance of the 2016A Bonds, the City will deliver a portion of the proceeds of the 2016A Bonds which are sufficient to pay all outstanding amounts under the San Jacinto Valley RWRF State Loan to the Trustee. The Trustee will apply such moneys to pay all outstanding amounts under the San Jacinto Valley RWRF State Loan on the date of issuance of the 2016A Bonds at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

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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 2016A Bonds and the prepayment of the 2006A Certificates:

Sources[1]:	Principal Amount of 2016A Bonds	$209,230,000
	Plus Original Issue Premium	43,654,227
	District Contribution[2]	9,091,634
	Total Sources:	$261,975,861
Uses[1]:	Prepayment of 2006A Certificates	$ 92,280,716
	Prepayment of Parity State Loans[3]	168,442,376
	Transfer to District[4]	498,525
	Costs of Issuance[5]	754,244
	Total Uses:	$261,975,861

(1) Amounts rounded to the nearest dollar.
(2) Includes amounts deposited in funds and accounts established in connection with the 2006A Certificates and the Parity State Loans.
(3) Estimated. Exact amount to be determined by DWR and the SWRCB. Includes amounts deposited in funds and accounts established in connection with the 2006A Certificates and the Parity State Loans. May include additional moneys deposited from District reserves if necessary to prepay Parity State Loans.
(4) Estimated. Reflects transfer of moneys from funds and accounts established in connection with the 2006A Certificates to the District to finance capital projects. Actual amount may differ in the event that additional moneys are required to prepay Parity State Loans. See footnote (3).
(5) Includes certain legal, financing, rating agency and Trustee fees, Underwriters' discount and printing costs.

THE 2016A BONDS

General Provisions

The 2016A Bonds will be issued in the aggregate principal amount of $209,230,000. The 2016A Bonds will bear interest from and be dated the date of initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the 2016A Bonds will be payable on July 1, 2016 and each January 1 and July 1 thereafter. Interest will be calculated at the rates set forth on the inside front cover page hereof and on the basis of a year of 360 days comprised of twelve 30 day months.

The 2016A Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2016A Bonds. Ownership interests in the 2016A Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof. See the caption "—Book-Entry Only System" below and Appendix E.

In the event that the book-entry only system described below is discontinued, the principal of and interest on any 2016A Bond will be payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the Office of the Trustee in Los Angeles, California. Such principal and interest will be payable in lawful money of the United States of America.

Book-Entry Only System

One fully-registered 2016A Bond will be issued for each maturity of the 2016A Bonds in the principal amount of the 2016A Bonds of such maturity. Each 2016A Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2016A Bonds is registered in the name of Cede & Co., the term "Owner" as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the 2016A 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 that event, the 2016A 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 with respect to the 2016A 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.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system described above is discontinued, the 2016A Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2016A 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 2016A 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 2016A Bond during the period in which the Trustee is selecting 2016A Bonds for redemption and any 2016A Bond that has been selected for redemption.

Whenever any 2016A Bond is surrendered for transfer, the District will execute and the Trustee will authenticate and deliver a new 2016A Bond or 2016A Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2016A 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 2016A Bonds, the Trustee will cancel and destroy the 2016A Bonds it has received.

2016A 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 2016A Bond during the period in which the Trustee is selecting 2016A Bonds for redemption and any 2016A Bond that has been selected for redemption. The Trustee will require the 2016A 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 2016A Bonds, the Trustee will cancel and destroy the 2016A Bonds it has received.

Redemption of the 2016A Bonds

Optional Redemption. The 2016A Bonds maturing on or after July 1, 2027 will be subject to redemption prior to their respective stated maturities, as directed by the District in a Written Request provided to the Trustee at least 40 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee) prior to the Redemption Date, as a whole or in part as directed by the District and by lot within each maturity in integral multiples of $5,000, on July 1, 2026 or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Redemption. The 2016A Bonds maturing on July 1, 2042 are also subject to mandatory sinking fund redemption in part (by lot) on each July 1 on and after July 1, 2040, in integral multiples of $5,000 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 2016A Principal Account an amount equal to the payment or payments due on such date as set forth below.

Mandatory Redemption Date (July 1)	Principal Amount
2040	$6,400,000
2041	6,725,000
2042†	7,070,000

† Final Maturity.

The 2016A Bonds maturing on July 1, 2045 are also subject to mandatory sinking fund redemption in part (by lot) on each July 1 on and after July 1, 2043, in integral multiples of $5,000 at a Redemption Price 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 2016A Principal Account an amount equal to the payment or payments due on such date as set forth below.

Mandatory Redemption Date (July 1)	Principal Amount
2043	$7,435,000
2044	7,820,000
2045†	7,255,000

† Final Maturity.

Partial Redemption. Upon surrender of any 2016A 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 2016A Bond or 2016A Bonds of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the 2016A Bonds surrendered and of the same series, interest rate and Maturity Date.

Effect of Partial Redemption. In the event of any partial redemption of 2016A 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 is sole discretion chooses) adjust the amount of each such reduction in the required mandatory redemption schedule, so that each such required redemption for the 2016A Bonds is made in Authorized Denominations and integral multiples thereof.

Selection of 2016A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2016A Bonds, the Trustee will select the 2016A Bonds for redemption as a whole or in part on any date as directed in writing 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 2016A 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 2016A 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 2016A Bonds of any such maturity are to be redeemed, the serial numbers of the 2016A Bonds of such maturity to be redeemed by giving the individual number of each 2016A Bond or by stating that all 2016A Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016A 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 2016A

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 2016A 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 2016A 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 2016A Bond. Notice of redemption of 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2016A Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2016A Bonds so called for redemption will cease to accrue, said 2016A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2016A 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 2016A Bonds to be redeemed on their Redemption Dates, pay such 2016A Bonds at the Redemption Price. All 2016A Bonds redeemed pursuant to the provisions of the Indenture will be canceled upon surrender thereof.

SECURITY FOR THE 2016A BONDS

General

Under the Master Resolution, the District may incur obligations payable on a subordinate basis to Parity Obligations. Pursuant to the Indenture, the 2016A 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 2016A Bonds. See the caption "THE REFUNDING PLAN—State Loans" for a discussion of the refunding of certain of such Parity State Loans.

The 2016A Bonds are payable from Net Revenues on a parity with the Subordinate Obligations, consisting of certain Contracts and Bonds (as such terms are defined in Appendix C), which are currently outstanding in the aggregate principal amount of $272,710,000, and certain regularly scheduled payments under two interest rate swap agreements. See Appendix A under the captions "THE DISTRICT—Debt Structure of the District—Subordinate Obligations" and "THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements."

Nothing in the Indenture or in the 2016A Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2016A Bonds to the respective Owners of the 2016A 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 2016A 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 2016A 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 2016A Bonds in accordance with their terms and the provisions of the Indenture, and the Net Revenues may not be used for any other purpose while the 2016A 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 (as such terms are defined in Appendix C), 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 2016A 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 2016A Bonds) and the Subordinate Obligations (which are payable on a parity with the 2016A 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 2016A 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 2016A Bonds are paid) a sum equal to the amount required to be deposited under the Indenture, the indentures and Contracts pursuant to which the Subordinate Obligations were issued or delivered, as applicable, the interest rate swap agreements described in Appendix A under the caption "THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements" and each other instrument securing Subordinate Obligations issued on a parity with the 2016A 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 issuance of the 2016A 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 2016A 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 2016A Payment Fund moneys for the payment of interest and principal on the 2016A 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.

(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 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds and such reserve funds may not be used to pay the principal of and interest on the 2016A Bonds.

No Acceleration Upon Event of Default

Neither the Indenture nor the Master Resolution permit the 2016A Bonds to be accelerated upon an event of a default. See Appendix C under the caption "INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF 2016A 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 State 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 2016A Bonds); (ii) all deposits required to be made to the Operating Reserve Fund (as described under the caption "—Flow of Funds"); and (ii) all debt service on all Subordinate Obligations.

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 2016A Bonds), provided that:

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

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

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

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

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

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

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

The Master Resolution does not establish conditions to the issuance of additional Subordinate Obligations payable on a parity with the 2016A 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 a parity with the 2016A 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 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, 2015.

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 23, 2015. The District represents that there has been no material change to its financial condition since June 30, 2014 that is not otherwise disclosed in this Official Statement.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the issuance of the 2016A 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 Lemieux & O'Neill, Westlake Village, California, General Counsel to the District, for the Underwriters by their counsel, Nixon Peabody LLP, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the 2016A Bonds for the accuracy, completeness or fairness of this Official Statement. Bond Counsel represents the Underwriter from time to time on matters unrelated to the 2016A Bonds.

The fees paid to Bond Counsel, Underwriters' counsel and the Financial Advisor are contingent upon the issuance of the 2016A Bonds.

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 or seeking to restrain or to enjoin the issuance of the 2016A Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the 2016A 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 2016A Bonds when due.

SDCWA Litigation

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

A hearing regarding the validity of MWD's rates under the 2010 and 2012 complaints commenced in December 2013 in the San Francisco Superior Court. SDCWA alleges that MWD's water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleges that such costs should be reclassified and reallocated so that MWD's remaining members, including the District, bear a larger share of the financial burden. On April 24, 2014 the court issued a final statement of decision 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 cannot lawfully order MWD to adopt a particular rate structure.

The two remaining civil claims were tried in March and April 2015. The District is not a defendant on the remaining claims, which are: (a) a claim for declaratory relief based on MWD's alleged miscalculation of SDCWA's preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court can award damages at this stage.

Final judgment was entered by the San Francisco Superior Court on November 18, 2015, in favor of SDCWA and against MWD on most of the causes of action in the 2010 and 2012 cases. The court awarded

SDCWA damages in the amount of $188,295,602 and interest in the amount of $46,637,180, resulting in a total award of $234,932,782. The District understands that MWD has set aside money to pay for a portion of such amounts. An award of attorneys' fees and costs is pending.

MWD and the member agencies have filed a notice of appeal of the trial court decision. In the event that the trial court verdict is eventually upheld on appeal, the District's MWD water charges could increase. Because the District's policy is to pass MWD water rate increases through to imported water customers, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay principal of and interest on the 2016A Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the 2016A Bonds to provide certain financial information and operating data relating to the District by each February 1 following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2016, and to provide notices (each, a "Material Event Notice") of the occurrence of certain enumerated events. The Annual Report and any Material Event Notice will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, which can be found at http://emma.msrb.org. The specific nature of the information to be contained in the Annual Report and any Material Event Notice is set forth in Appendix F. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the "Rule").

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

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

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

(3) Of the approximately 50 outstanding debt issuances of community facilities districts created by the District (the "CFD Bonds"), one report for Fiscal Year 2013 and one report for Fiscal Year 2012 were filed after the dates required for such filings. Although the District is not the "obligated person" for purposes of the Rule with respect to the CFD Bonds, District staff is responsible for preparing the annual reports for the CFD Bonds.

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

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

(6) The Annual Reports for Fiscal Year 2015 for certain District general obligation bonds were filed with EMMA approximately 9 days after the filing deadline.

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

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

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 (and original issue discount) on the 2016A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016A Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2016A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a 2016A Bond (the first price at which a substantial amount of the 2016A Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2016A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2016A Bond Owner will increase the 2016A Bond Owner's basis in the 2016A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2016A Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a 2016A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2016A Bond Owner's basis in the applicable 2016A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2016A Bond Owner realizing a taxable gain when a 2016A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016A Bond to the Owner. Purchasers of the 2016A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2016A 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 Code, that must be satisfied subsequent to the issuance of the 2016A Bonds to assure that interest (and original issue discount) on the 2016A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A 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 2016A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2016A Bonds might be affected as a result of such an audit of the 2016A 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 2016A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2016A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2016A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2016A BONDS OR THE MARKET VALUE OF THE 2016A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2016A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2016A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2016A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2016A 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 2016A 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 2016A 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 2016A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any 2016A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2016A 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 2016A Bonds and the accrual or receipt of interest (and original issue discount) on the 2016A 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 2016A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2016A Bonds.

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

FINANCIAL ADVISOR

The District has retained Public Financial Management Inc., Los Angeles, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the 2016A 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

The District expects that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Moody's Investors Service, Inc. and Fitch Ratings, Inc. will assign the 2016A Bonds the ratings of "AA", "Aa3" and "AA", respectively. No application has been made to any other rating agency for the purpose of obtaining any additional ratings on the 2016A Bonds. The above-described credit ratings given to the 2016A 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 2016A Bonds will continue for any period of time or that a credit rating given to the 2016A 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 2016A Bonds may have an adverse effect on the market price of the 2016A 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.

UNDERWRITING

The 2016A Bonds are being purchased pursuant to a Contract of Purchase, dated the date hereof (the "Purchase Contract"), by and between the District and Citigroup Global Markets Inc. (the "Representative"), as representative of itself, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated (collectively, the "Underwriters"), at a purchase price of $252,591,448.86 (representing the par amount of the 2016A Bonds, less an Underwriters' discount of $292,777.74, plus an original issue premium of $43,654,226.60). The Purchase Contract provides that the Underwriters will purchase all of the 2016A Bonds if any are purchased.

The Underwriters may offer and sell the 2016A Bonds to certain dealers (including dealers depositing the 2016A Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

The Representative has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, the Representative may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, the Representative may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2016A Bonds.

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

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

The Underwriters and their respective 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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MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2016A Bonds.

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

EASTERN MUNICIPAL WATER DISTRICT

By: /s/Paul D. Jones II, P.E.
General Manager

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 50% of its water supply (including approximately 76% of its potable water supply) from The Metropolitan Water District of Southern California ("MWD") and derives approximately 50% of its water supply (including approximately 24% of its potable water supply) from local sources, including groundwater, desalinated water and recycled water. In general, the District annually supplies approximately 50% of the water consumed within the District's service area, and the remainder is provided by private groundwater wells and other agencies.

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

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

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

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

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

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

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

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

Board of Directors and Management

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

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

David J. Slawson – Board Vice President. A Board member since January 1995, David J. Slawson served as Board President from January 2007 to January 2009. Both a licensed Professional Land Surveyor and licensed California attorney, he is a former member of the California Department of Consumer Affairs Board of Registration for Professional Engineers and Land Surveyors. He is president of Winchester Associates, a civil engineering and land surveying firm. A longtime resident of Moreno Valley, Mr. Slawson is also a former Moreno Valley city planning commissioner. Mr. Slawson serves on the Board's Operations/Engineering Committee. He also serves as the liaison with Elsinore Valley Municipal Water District, 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 Board term expires in January 2019.

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

Philip E. Paule – Director. A Board member since 2007, Philip E. Paule was re-elected to another four-year term in 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 Executive and Administrative Committees, as well as the Ad Hoc

Committees for the Hemet/San Jacinto Groundwater Management Plan and the Lake Hemet Municipal Water District. He also serves as a liaison to Western Municipal Water District and the Soboba Tribal Committee. Mr. Paule is on the Executive Committee of CalDesal. Unchallenged in the 2014 election, his Board term will expire in January 2019.

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

Management

Paul D. Jones II, P.E. – General Manager. Paul D. Jones II, General Manager, was appointed general manager in July 2011 and heads a staff of approximately 613 employees. Previously, Mr. Jones was the General Manager of the Irvine Ranch Water District ("IRWD") from 1999 to 2011. Under his leadership, IRWD became known for diverse and highly reliable water supply and storage portfolios. While at IRWD, he was instrumental in the development of creative urban runoff treatment programs and natural resource management at the San Joaquin Marsh and Wildlife Sanctuary. Like the District, IRWD operates extensive sewer and recycled water systems. Prior to his service at IRWD, Mr. Jones was the General Manager of both West Basin Municipal Water District and Central Basin Municipal Water District in Carson, California. There he was responsible for the operation of two wholesale water districts governed by separate elected boards. Mr. Jones previously worked for a private environmental engineering firm and served as senior engineer and assistant to the general manager of Municipal Water District of Orange County. Mr. Jones also served as director of regional infrastructure planning and manager of infrastructure project engineering with The Irvine Company. Mr. Jones received his Bachelor of Science degree in civil engineering with an emphasis in water resources from California State Polytechnic University, Pomona and is a registered professional engineer in the State of California.

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

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

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

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

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

Employee Relations

As of December 14, 2015, the District had 613 employees, of which 17 were in the Executive branch, 176 were in the Administrative Services branch, 265 were in the Operations and Maintenance branch and 155 were in the Engineering, Planning & Construction branch. The District's single bargaining unit, which includes 458 employees, is represented by the International Brotherhood of Electrical Workers Local 1436 (the "Union"). The District's current memorandum of understanding (the "MOU") with the bargaining unit was approved in October 2013 and expires on July 23, 2016. Among the major agreements reached in the MOU, the District negotiated the implementation of a new lower tier of retiree medical benefits for future employees, negotiated additional employee and retiree contributions to monthly medical premiums and negotiated additional employee pension contributions. See the caption "HISTORICAL FINANCIAL OPERATIONS—Pension Plan." In exchange, the District provided a minimum cost-of-living adjustment to employee wages through the expiration of the current MOU. Labor and management enjoy a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The District expects to commence negotiations with the Union with respect to a new MOU in spring 2016. The District has never experienced a strike, slowdown or work stoppage.

Insurance Programs

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

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

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

Excess General Liability Insurance Coverage. Effective June 2015, the Board approved excess general liability, public officials/management liability, and auto liability insurance coverage, with a $20,000,000 coverage limit. This excess coverage is combined with the District's self-insured retention level and the auto primary coverage of $1,000,000, subject to nominal deductibles.

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

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

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

Debt Structure of the District

Parity Obligations. Pursuant to the Master Resolution, the District has issued revenue bonds and entered into certain outstanding installment sale agreements and loans with certain State of California agencies which are secured by a pledge of and lien on Net Water and Sewer Revenues and constitute "Parity Obligations" under the Master Resolution. The Parity Obligations are payable from Net Water and Sewer Revenues on a senior basis to the District's Refunding Water and Wastewater Revenue Bonds, Series 2016A (the "2016A Bonds").

The following summarizes the District's outstanding Parity Obligations:

Installment Sale Agreements/Certificates of Participation and Revenue Bonds. The District has entered into various installment sale agreements and, in turn, caused the execution and delivery of various related series of certificates of participation, all in order to fund the District's ongoing capital improvement plan. See the caption "THE CAPITAL IMPROVEMENT PLAN." Each such installment sale agreement has required the District to make installment payments from the District's Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution, and the District's obligation to make each such installment payment has been secured in accordance with the terms of the Master Resolution. The District's obligations to pay Installment Sale Payments (as defined in the Master Resolution) under such installment sale agreements from the District's Net Water and Sewer Revenues are senior to the District's obligation to pay principal of and interest on the 2016A Bonds.

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

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

The following table sets forth the District's certificates of participation and revenue bonds payable from Installment Sale Payments that are Parity Obligations under the Master Resolution outstanding as of December 31, 2015.

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TABLE 1
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Parity Obligations

Name of Issue	Original Amount Issued	Principal Outstanding As of December 31, 2015
Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2006A[1]	$ 106,320,000	$ 90,180,000
Refunding Certificates of Participation, Series 2007A	20,710,000	20,135,000
Refunding Certificates of Participation, Series 2008C[2][3]	54,400,000	47,545,000
Certificates of Participation, Series 2008H	140,035,000	140,035,000
Refunding Water and Sewer Revenue Bonds, Series 2011A	56,255,000	26,150,000
Refunding Water and Sewer Revenue Bonds, Series 2012A	50,000,000	50,000,000
Refunding Water and Sewer Revenue Bonds, Series 2013A	54,575,000	54,575,000
Total	$ 482,295,000	$ 428,620,000

(1) The District intends to prepay the Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2006A (the "2006A Certificates") from proceeds of the 2016A Bonds on or about July 1, 2016. See the Official Statement under the caption "THE REFUNDING PLAN—2006A Certificates."

(2) The District maintains an Interest Rate Swap Agreement with Wells Fargo Bank, N.A. ("WFB") that presently corresponds to the interest rates borne by these obligations. The District's obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with payment of the 2016A Bonds and the District's obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a subordinate basis to payment of the 2016A Bonds. See the caption "—Interest Rate Swap Agreements—2008C Interest Rate Swap Agreement."

(3) Liquidity support provided by a Standby Certificate Purchase Agreement with U.S. Bank National Association expiring on December 11, 2017. Certain amounts payable thereunder constitute Parity Obligations which are payable from Net Water and Sewer Revenues on a senior basis to the 2016A Bonds.

Source: Eastern Municipal Water District.

Parity State Loans. The District has entered into seven different State Revolving Fund loan contracts (each, a "State Loan") to fund certain costs related to design and construction of District infrastructure in accordance with the terms of each State Loan. Four of the State Loan contracts were entered into with the State of California Department of Water Resources ("DWR") and three were entered into with the State Water Resources Control Board (the "SWRCB"). Under each State Loan, the District borrowed money in increments as the District incurred costs approved as part of the costs of the project financed from such State Loan. Repayment of the amounts borrowed is on a semi-annual basis and usually begins approximately one year following completion of the related project.

The District's obligations to make State Loan repayments constitute Parity Obligations under the Master Resolution. Payments made under the State Loans are payable from Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution and are secured by a pledge of and lien on Net Water and Sewer Revenues on a senior basis to the 2016A Bonds. Notwithstanding the foregoing, DWR and the SWRCB have agreed in principle to enter into amendments to the State Loans pursuant to which the District's obligations thereunder would constitute Subordinate Obligations (as defined under the caption "—Subordinate Obligations" below) payable from Net Revenues on a parity with the 2016A Bonds. The District, DWR and the SWRCB are currently negotiating the terms of such amendments. There can be no assurance as to whether or when any such amendments will be executed.

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

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

	Loan Description	Project	Term	Interest Rate	Total Debt Amount (Original)	Remaining Debt Balance (Outstanding)[(1)]	Repayment End Date
1.	Safe Drinking Water State Revolving Fund Loan	Hemet Water Filtration Plant	20 years	0.00%	$ 42,098,388	$ 23,577,045	7/1/2028
2.	Safe Drinking Water State Revolving Fund Loan[(2)]	Sun City Pipeline Replacement Projects	20 years	2.80	2,000,000	880,097	4/1/2023
3.	Safe Drinking Water State Revolving Fund Loan[(2)]	Sun City Pipeline Replacement Projects	20 years	2.80	3,150,000	1,388,904	4/1/2023
4.	State Revolving Fund No. 08-845-550 (Moreno Valley RWRF - SCATT)	Moreno Valley RWRF – SCATT	20 years	1.00	38,362,890	33,026,598	7/5/2032
5.	State Revolving Fund No. 09-809-550-1 (Moreno Valley RWRF - APAD)	Moreno Valley RWRF – APAD	20 years	0.42	43,546,128	39,679,975	3/16/2033
6.	State Revolving Fund No. C-06-5312-110 (TVRWRF)[(2)]	Temecula Valley RWRF	20 years	2.60	18,114,795	17,412,755	12/30/2034
	Total				$147,272,201	$115,965,374	

(1) As of December 31, 2015.
(2) The District intends to prepay this State Loan from proceeds of the 2016A Bonds on or about the date of issuance of the 2016A Bonds. See the Official Statement under the caption "THE REFUNDING PLAN—State Loans."
Source: Eastern Municipal Water District.

The District has entered into a State Loan in the approximate amount of $145,000,000 to finance improvements to the San Jacinto Valley Regional Wastewater Recovery Facility (the "San Jacinto Valley RWRF"). The project is also funded in part from a $4,900,000 grant from SAWPA. The project objectives are to modify existing facilities and construct new facilities at the San Jacinto Valley RWRF in order to increase reliable capacity from 11.0 million gallons per day ("mgd") to 14.0 mgd. Construction was completed in October 2015. A repayment schedule for the San Jacinto Valley RWRF State Loan has not yet been finalized but is expected to reflect semi-annual payments over a 20 year period commencing in February 2017. The District intends to prepay this State Loan from proceeds of the 2016A Bonds on or about the date of issuance of the 2016A Bonds. See the Official Statement under the caption "THE REFUNDING PLAN—State Loans."

See the caption "—Subordinate Obligations" for a discussion of an additional State Loan entered into with the SWRCB that is payable from Net Revenues on a parity with the 2016A Bonds.

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TABLE 3
EASTERN MUNICIPAL WATER DISTRICT
New Parity State Loan Agreements

	Loan Description	Project	Expected Term	Interest Rate	Total Debt Amount (Approved by State)	Reimbursable (Amounts Received)[1]	Expected Term of Loan (Repayment)
1.	State Revolving Fund No. C-06-5159-110 (SJVRWRF)[2]	San Jacinto Valley RWRF	20 years	2.70%	$145,000,000	$136,942,319	2/16/2017 – 1/16/2037

(1) As of December 31, 2015.
(2) The District intends to prepay this State Loan from proceeds of the 2016A Bonds on or about the date of issuance of the 2016A Bonds. See the Official Statement under the caption "THE REFUNDING PLAN—State Loans."
Source: Eastern Municipal Water District.

Interest Rate Swap Agreements.

General. As of December 31, 2015, 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 $94,660,000:

Related Bond Issue	Notional Amount	Swap Providers	District Pays	District Receives	Scheduled Maturity/ Termination Date
Refunding Water and Wastewater Revenue Bonds, Series 2014C (the "2014C Bonds")	$54,460,000	Wells Fargo Bank, National Association	3.10 %	66% of 1 month LIBOR	7/1/2030
Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C (the "2008C Certificates")	39,895,000	Wells Fargo Bank, National Association	5.125	SIFMA	7/1/2020

Source: Eastern Municipal Water District.

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

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

Pursuant to the terms of the Interest Rate Swap Agreements, the District is required to post collateral in favor of the applicable counterparty to the extent that the District's total exposure for termination payments to such counterparty exceeds the threshold specified in the applicable Interest Rate Swap Agreement. Conversely, the counterparties are required to release collateral to the District as market conditions become favorable to the

District and may be required to post collateral for the benefit of the District to the extent that such counterparty's total exposure for termination payments to the District exceeds the threshold specified in the applicable Interest Rate Swap Agreement. As of December 31, 2015, the District has never been required to post collateral under either Interest Rate Swap Agreement. However, there can be no assurance that the District will not be required to post collateral in the future. Collateral deposited by the District would be held by the applicable counterparty or an agent therefor and a bankruptcy of any counterparty holding collateral posted by the District could adversely affect the return of the collateral to the District. Moreover, posting collateral limits the District's liquidity. If collateral requirements increase significantly, the District's liquidity may be adversely affected.

From time to time, the District may enter into additional interest rate swap agreements with security and payment provisions as determined by the District and subject to any conditions contained in the Indenture. As of June 30, 2015, the mark-to-market value of the Interest Rate Swap Agreements was negative $8,621,842 with respect to the Interest Rate Swap Agreement relating to the 2014C Bonds (the "2014C Swap") and negative $5,395,272 with respect to the Interest Rate Swap Agreement relating to the 2008C Certificates (the "2008C Swap").

2014C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2014C Swap, is payable from Net Revenues on a parity with the 2016A Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2014C Bonds or other subordinate obligations, the 2014C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Pursuant to the 2014C Swap, any such termination payment owed by the District would be payable from Net Revenues on basis immediately subordinate to the 2016A Bonds.

2008C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2008C Swap, is payable from Net Revenues on a parity with the 2016A Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2008C Certificates or other Parity Obligations, an event of taxability with respect to the 2008C Certificates or a conversion of the interest rate mode with respect to the 2008C Certificates, the 2008C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Any such termination payment owed by the District pursuant to the WFB Swap would be payable from Net Revenues on a basis immediately subordinate to the 2016A Bonds.

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

Subordinate Obligations. In addition to the Interest Rate Swap Agreements described above under the caption "—Interest Rate Swap Agreements," District obligations that are payable from Net Revenues on a parity with the 2016A Bonds (the "Subordinate Obligations") are set forth in the following two tables:

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TABLE 3A
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate Obligations

Name of Issue	Original Amount Issued	Principal Outstanding As of December 31, 2015
Refunding Water and Wastewater Revenue Bonds, Series 2014A (the "2014A Bonds")[(1)]	$ 48,645,000	$ 48,645,000
Refunding Water and Wastewater Revenue Bonds, Series 2014B (the "2014B Bonds")[(2)]	45,175,000	45,175,000
2014C Bonds[(3)]	54,765,000	54,460,000
Refunding Water and Wastewater Revenue Bonds, Series 2015A[(4)]	50,000,000	50,000,000
Water and Wastewater Revenue Bonds, Series 2015B[(5)]	74,430,000	74,430,000
Total	$ 273,015,000	$ 272,710,000

(1) Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on June 11, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016A Bonds.
(2) Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on October 6, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016A Bonds.
(3) Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on October 27, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016A Bonds. The District maintains an Interest Rate Swap Agreement with WFB related to the 2014C Bonds. The District's obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with payment of the 2016A 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 2016A Bonds. See the caption "—Interest Rate Swap Agreements—2014C Interest Rate Swap Agreement."
(4) Liquidity support provided by a Standby Bond Purchase Agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. expiring on June 22, 2018. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016A Bonds.
(5) The Water and Wastewater Revenue Bonds, Series 2015B (the "2015B Bonds") were issued by the Eastern Municipal Water District Financing Authority (the "EMWDFA"), a joint exercise of powers authority of which the District is a member. The District's obligations under an installment purchase agreement with the EMWDFA (the "2015B IPA"), which secure the 2015B Bonds, are payable from Net Revenues on a parity with the 2016A Bonds.

Source: Eastern Municipal Water District.

TABLE 3B
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate State Loan Agreements

	Loan Description	Project	Expected Term	Interest Rate	Total Debt Amount (Approved by State)[(1)]	Reimbursable (Amounts Received)[(2)]	Expected Term of Loan (Repayment)
1.	State Revolving Fund No. C-06-7831-110	Recycled Water Pond Expansion and Optimization	30 years	1.00%	$11,246,300	$7,798,170	11/30/2017 – 11/30/2046

(1) $3,448,130 of such amount constitutes a grant, contingent upon District repayment of the remaining principal amount plus interest.
(2) As of December 31, 2015.

Source: Eastern Municipal Water District.

The District has applied for an additional State Loan in the approximate amount of $99,000,000 to finance an expansion of the Temecula Valley Regional Wastewater Recovery Facility (the "Temecula Valley RWRF"). The project is also expected to be funded in part from a $15,000,000 grant from the State of California. The project objectives are to increase the Temecula Valley RWRF's capacity from 18.0 mgd to 23.0 mgd. The additional Temecula Valley RWRF State Loan has not yet been approved. If approved, the additional Temecula Valley RWRF State Loan is expected to reflect semi-annual payments over a 30 year period payable from Net Revenues on a parity with the 2016A Bonds. See the caption "WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities." Projected debt service figures shown herein do not reflect the execution of the additional Temecula Valley RWRF State Loan.

As discussed above under the caption "—Parity State Loans," DWR and the SWRCB have agreed in principle to enter into amendments to the District's State Loans that currently constitute Parity Obligations pursuant to which the District's obligations thereunder would become Subordinate Obligations payable from Net Revenues on a parity with the 2016A Bonds. The District, DWR and the SWRCB are currently negotiating the terms of such amendments. There can be no assurance as to whether or when any such amendments will be executed.

Summary of Debt Service. The following table summarizes projected debt service with respect to: (i) the District's outstanding Parity Obligations; and (ii) debt service on the 2016A Bonds and other Subordinate Obligations.

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TABLE 4
EASTERN MUNICIPAL WATER DISTRICT
Debt Service Schedule

Period Ending June 30	Parity Obligations: Installment Sale Agreement and Revenue Bond Payments Relating to Outstanding Parity Obligations[1][2] – Principal	Interest	Parity State Loans[3] – Principal	Interest	Total Parity Obligation Debt Service	Subordinate Obligations: Subordinate Obligation Debt Service[4]	Subordinate State Loans[5]	Total Debt Service[3]
2016	$ 12,355,000	$ 19,711,061	$ 6,299,891	$ 2,227,837	$ 40,593,790	$ 8,928,369	$ -	$ 49,522,159
2017	8,520,000	14,802,086	5,523,290	997,728	29,843,104	22,033,921	-	51,877,025
2018	4,245,000	14,442,515	5,586,698	934,320	25,208,533	25,676,823	215,801	51,101,157
2019	4,415,000	14,137,746	5,651,157	869,861	25,073,764	25,691,000	303,912	51,068,676
2020	4,630,000	13,796,510	5,716,687	804,331	24,947,528	25,648,631	303,912	50,900,072
2021	4,865,000	13,437,751	5,783,311	737,707	24,823,769	25,672,027	303,912	50,799,708
2022	6,220,000	13,150,950	5,851,050	669,968	25,891,968	27,985,721	303,912	54,181,601
2023	6,530,000	12,832,200	5,919,927	601,091	25,883,218	28,001,217	303,912	54,188,347
2024	6,860,000	12,497,450	5,989,965	531,053	25,878,468	27,686,760	303,912	53,869,140
2025	8,990,000	12,074,248	6,061,186	459,832	27,585,266	30,195,723	303,912	58,084,901
2026	9,570,000	11,666,331	6,133,616	387,402	27,757,349	30,176,289	303,912	58,237,550
2027	9,980,000	11,235,942	6,207,277	313,741	27,736,960	30,170,547	303,912	58,211,419
2028	10,400,000	10,786,669	6,282,196	238,822	27,707,687	30,186,576	303,912	58,198,175
2029	10,970,000	10,313,575	5,305,938	162,620	26,752,133	30,168,725	303,912	57,224,771
2030	11,350,000	9,819,419	4,294,975	121,124	25,585,517	30,171,068	303,912	56,060,498
2031	11,775,000	9,307,127	4,324,887	91,211	25,498,226	30,172,174	303,912	55,974,312
2032	20,725,000	8,562,596	4,355,044	61,055	33,703,694	22,058,150	303,912	56,065,756
2033	21,695,000	7,572,054	4,385,447	30,652	33,683,153	22,054,775	303,912	56,041,840
2034	22,735,000	6,533,044	-	-	29,268,044	22,045,275	303,912	51,617,231
2035	27,580,000	5,349,860	-	-	32,929,860	22,038,650	303,912	55,272,422
2036	28,840,000	4,016,488	-	-	32,856,488	22,033,650	303,912	55,194,050
2037	16,000,000	2,900,742	-	-	18,900,742	32,435,942	303,912	51,640,595
2038	16,710,000	2,317,963	-	-	19,027,963	32,569,538	303,912	51,901,412
2039	17,290,000	1,714,504	-	-	19,004,504	32,543,579	303,912	51,851,995
2040	5,230,000	1,496,279	-	-	6,726,279	32,858,373	303,912	39,888,564
2041	5,420,000	1,307,133	-	-	6,727,133	32,865,088	303,912	39,896,133
2042	5,615,000	1,111,177	-	-	6,726,177	32,860,685	303,912	39,890,775
2043	5,820,000	908,075	-	-	6,728,075	32,857,373	303,912	39,889,360
2044	6,030,000	697,638	-	-	6,727,638	32,859,344	303,912	39,890,893
2045	6,250,000	479,529	-	-	6,729,529	32,865,008	303,912	39,898,450
2046	6,475,000	253,560	-	-	6,728,560	31,924,727	303,912	38,957,200
2047	6,705,000	19,556	-	-	6,724,556	24,487,544	303,912	31,516,012
TOTAL	$ 350,795,000	$ 249,251,777	$ 99,672,543	$ 10,240,354	$ 709,959,674	$ 889,923,273	$ 9,029,251	$ 1,608,912,198

(FOOTNOTES ON FOLLOWING PAGE)

(1) Includes debt service on outstanding Parity Obligations listed on Table 1 under the caption "—Installment Sale Agreements/Certificates of Participation and Revenue Bonds." Fiscal Year 2016 amounts include debt service with respect to 2006A Certificates, which are being prepaid from proceeds of the 2016A Bonds, as discussed in the Official Statement under the caption "THE REFUNDING PLAN—2006A Certificates."

(2) Interest on the hedged portion of the variable rate 2008C Certificates is calculated at an assumed 2008C Swap rate of 5.125% per annum through July 1, 2020 and at an assumed rate of 3.50% thereafter. Interest on the unhedged portion of the 2008C Certificates, the Series 2012A Bonds and the Series 2013A Bonds is calculated at an assumed interest rate of 3.50% per annum. Fiscal Year 2016 amounts include debt service with respect to the 2006A Certificates, which are being prepaid from proceeds of the 2016A Bonds, as discussed in the Official Statement under the caption "THE REFUNDING PLAN—2006A Certificates."

(3) Reflects debt service on parity State Loans described in Table 2 under the caption "—Parity State Loans" that will remain outstanding after refunding of the parity State Loans described in the Official Statement under the caption "THE REFUNDING PLAN—State Loans." Fiscal Year 2016 amounts include debt service on parity State Loans that are being refunded as described in the Official Statement under the caption "THE REFUNDING PLAN—State Loans."

(4) Reflects debt service on 2014A Bonds, 2014B Bonds and 2015A Bonds at a projected interest rate of 3.50% per annum and debt service on 2014C Bonds at a projected interest rate of 3.10% per annum. Differs from the projected debt service set forth in Table 20 as a result of differing interest rate assumptions. Reflects scheduled debt service on 2015B IPA and 2016A Bonds and subordinate State Loan described in Table 3B under the caption "—Subordinate Obligations." Reflects scheduled debt service on 2016A Bonds.

(5) Reflects debt service on subordinate State Loan described in Table 3B under the caption "—Subordinate Obligations."

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Improvement District Bonds. The District has established 61 special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and six are combined water and sewer special improvement districts. Since 1952, the District has issued (on behalf of certain of these special improvement districts) 115 series of voter-authorized general obligation bonds, of which $34,540,000 aggregate principal amount remained outstanding as of December 1, 2015. There remain $547,650,000 aggregate principal amount of authorized but unissued general obligation bonds of the various special improvement districts within the District as of December 1, 2015. Such bonds are payable from *ad valorem* taxes levied by the District within the improvement districts for which such bonds were issued. Each series of such bonds constitutes an obligation of the respective special improvement district, not an obligation of the District, and the *ad valorem* taxes levied by the District on behalf of each such special improvement district are available only for the repayment of the bonds issued for such special improvement district. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources" for a discussion of certain limitations on the District's ability to levy *ad valorem* taxes.

Other Subordinate Obligations. Certain amounts payable to banks providing credit or liquidity facilities in connection with certain District obligations constitute Subordinate Obligations which are payable from Net Revenues on parity with the 2016A Bonds. No such amounts are currently outstanding.

District Investment Policy

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

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

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

District Reserve Policy

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

The Reserve Policy was adopted by the Board on January 22, 2003 and is subject to change at any time in the discretion of the Board. The Indenture does not require the District to maintain a debt service reserve fund for the 2016A Bonds. As of June 30, 2015, the District had approximately $268,097,000 in available cash reserves, representing approximately 513 days cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately $444,280,858 and is invested in various securities with an average yield of approximately 0.88% as of June 30, 2015. See Note 2 in Appendix B for further information with respect to District reserves.

Seismic Considerations

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

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

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

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

DISTRICT SERVICE AREA

The District's service area lies within the westerly third of Riverside County, encompassing approximately 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. 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 and 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 3.1 million as of Fiscal Year 2015. Of this total population, the District serves approximately 34%. The District has estimated that the population of the District's service area as of Fiscal Year 2015 was approximately 794,790.

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:

Fiscal Year	Population	Water Connections(1)	Wastewater Connections(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(3)	237,911

(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 2015 recycled water connections.

(3) Does not match figure shown under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Delivery" because such figure reflects an average of active connections over the course of Fiscal Year 2015.

Source: Eastern Municipal Water District.

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

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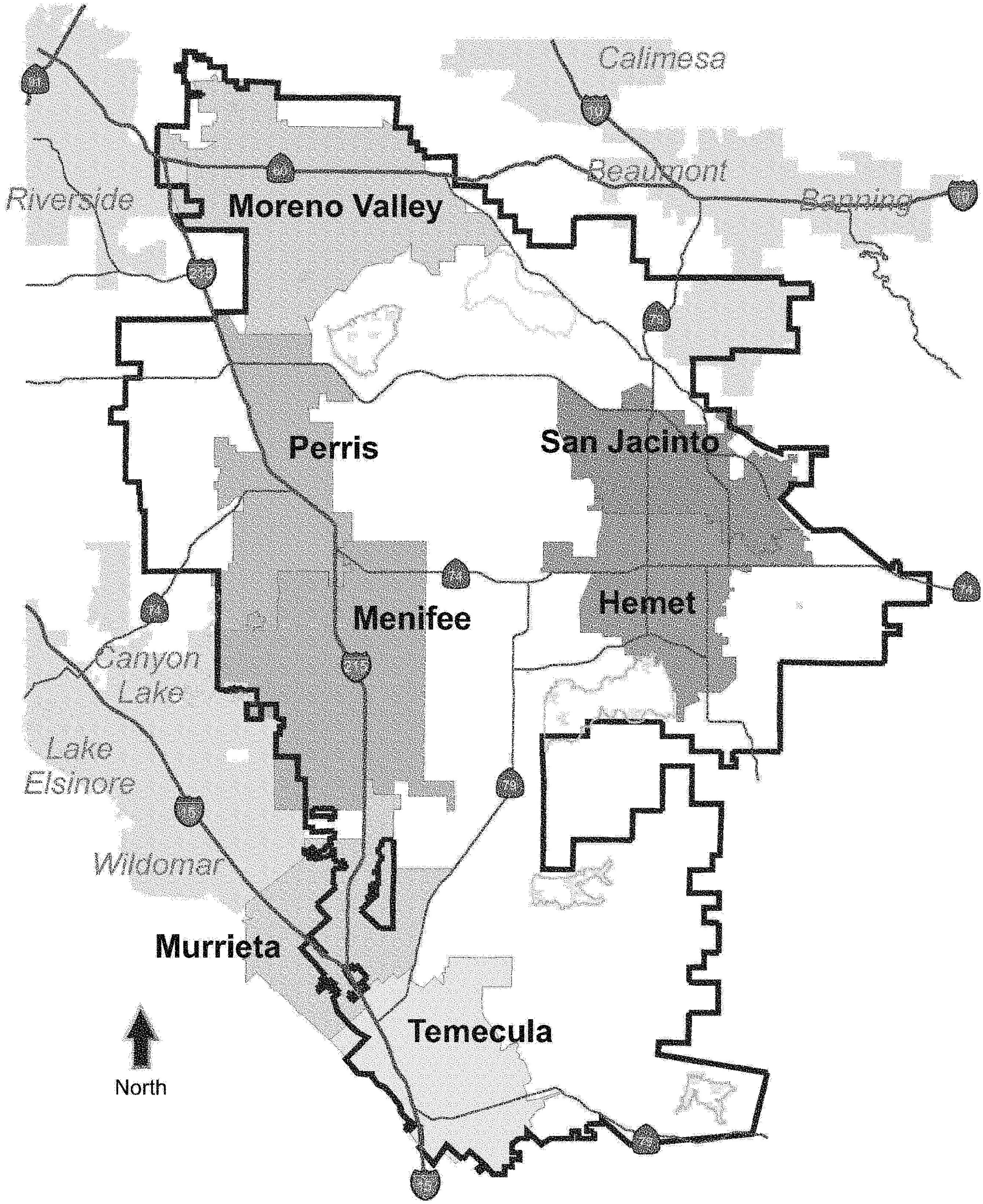
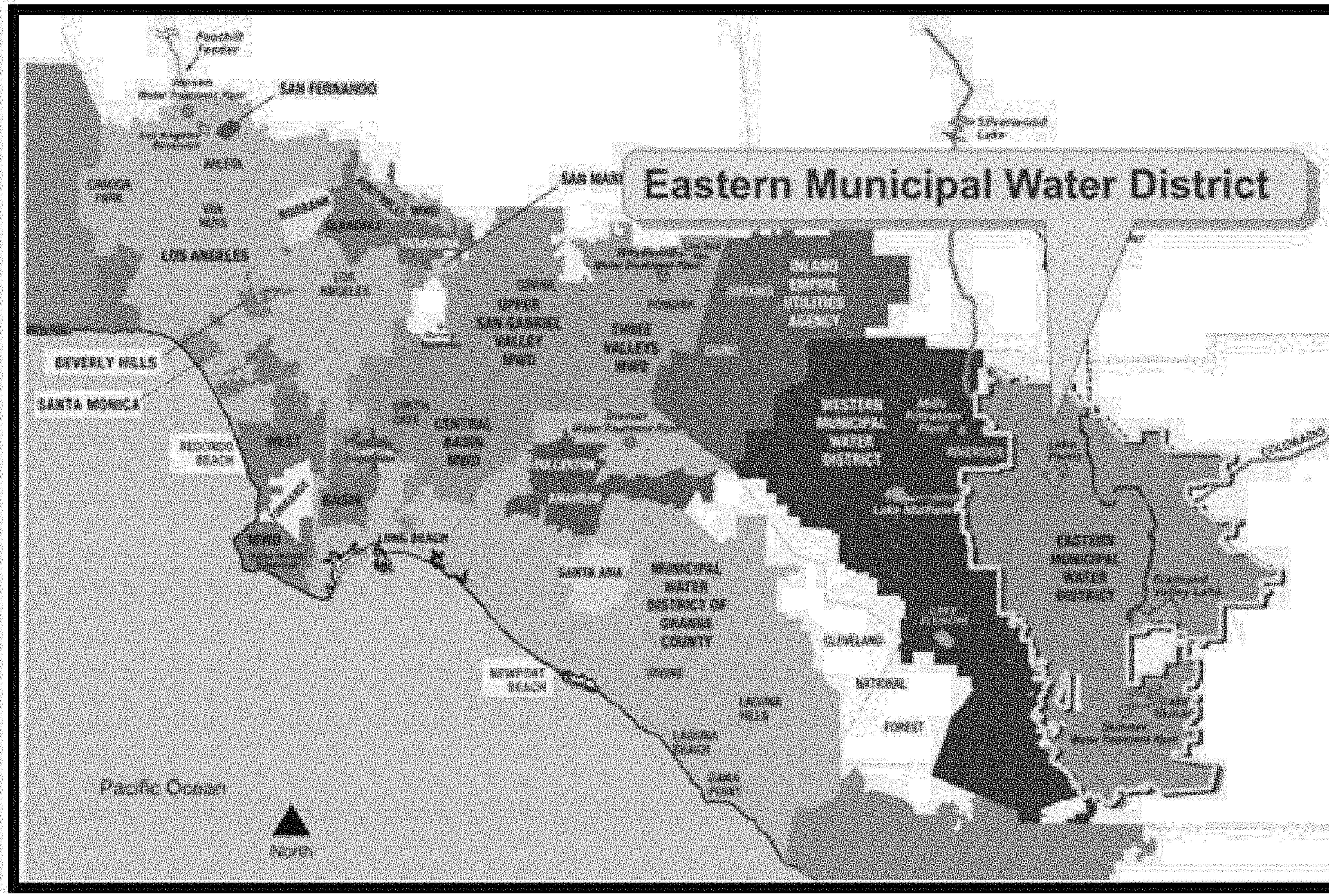


Calimesa
Beaumont
Banning
Riverside
Moreno Valley
Perris
San Jacinto
Hemet
Menifee
Canyon Lake
Lake Elsinore
Wildomar
Murrieta
Temecula
North


Eastern Municipal Water District
SAN FERNANDO
LOS ANGELES
BEVERLY HILLS
SANTA MONICA
REDONDO BEACH
LONG BEACH
SANTA ANA
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
NEWPORT BEACH
WESTERN MUNICIPAL WATER DISTRICT
EASTERN MUNICIPAL WATER DISTRICT
Pacific Ocean
North

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 50% of the District's total water supply (including domestic and non-domestic) comes from local sources, including approximately 10% 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 50% of the District's water supply (including approximately 76% of its potable water supply) comes through purchases from MWD, which in turn obtains its water supply from two primary sources: (i) the Colorado River via the Colorado River Aqueduct; and (ii) the State Water Project (the "State Project") via the Edmund G. Brown California Aqueduct. In Fiscal Year 2015, MWD supplied the District with approximately 68,271 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 Moreno Valley, Murrieta and Temecula and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Murrieta Hot Springs, Quail Valley, Romoland, Sun City, Valle Vista and Winchester. The District also supplies water on a wholesale basis to the cities of Hemet, San Jacinto and Perris, Lake Hemet Municipal Water District ("LHMWD"), Nuevo Mutual Water Company, Western Municipal Water District and DWR (collectively, the "Wholesale Customers").

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

The Metropolitan Water District of Southern California

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

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

MWD Revenues. MWD revenues are primarily derived from water sales. Water rates are established by majority vote of the MWD Board and are not subject to regulation by the California Public Utilities Commission or by any other local, State of California or federal agency. Rates must be uniform for any class of service, and no water may be provided free of charge. Under the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended (the "MWD Act"), MWD is required, so far as practicable, to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability charge or assessment, will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by MWD and provide for the payment of the interest and principal of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds. The same water rate is charged for water provided from the Colorado River and the State Project.

MWD is also empowered to impose an annual water standby or availability service charge, to be allocated among MWD's member agencies as determined by the MWD Board based on, among other factors: historical water deliveries by MWD; contracted or projected water service demands by member agencies; service connection capacity; acreage; property parcels; population; and assessed valuation. The charge may be collected from the member agencies or from individual parcels or may be converted into a benefit assessment. MWD imposes a water standby charge ranging from $6.94 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, 2013 to January 1, 2016.

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

	Full Service Domestic	
Rates Effective Beginning	Treated	Untreated
January 1, 2013 Tier 1	$ 847	$ 593
January 1, 2013 Tier 2	997	743
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

(1) MWD has discontinued this program.
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. Since July 1, 1990, 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. This will effectively accelerate over time the shift of total costs to water users, including the District. Taxes will cease to be levied when the general obligation bonds of MWD and the State of California general obligation water bonds are fully paid, although the MWD Act permits the MWD Board to continue to levy taxes upon a declaration of fiscal necessity.

District Water Facilities

The District's distribution system for potable water includes 83 water booster or pumping plants, 198 million gallons of surface storage capacity and approximately 2,463 miles of pipeline ranging from 4 to 60 inches in diameter.

Wells. Locally, the District maintains 17 active domestic production wells. The wells, which supplied 18% of the District's domestic water in Fiscal Year 2015, are listed by location, current status and Fiscal Year 2015 production in the following table.

TABLE 6
EASTERN MUNICIPAL WATER DISTRICT
Active Domestic District Wells

Location	Status	Fiscal Year 2015 Production (in acre feet)	Current Pumping Capacity[1] gallons/minute	acre feet/day
San Jacinto Basin – Cienega Area of Canyon Sub-Basin[2]				
No. 17 Cienega Well	Active	6	1,549	6.8
No. 26 Cienega Well	Active	0	2,199	9.7
No. 34 Cienega Well	Active	0	1,302	5.8
San Jacinto Basin – Intake Area of Upper Pressure Sub-Basin[3]				
No. 25 Fruitvale Well	Active	1,195	1,400	6.2
No. 27 Hewitt/Evans Well[4]	Standby	0	0	0.0
No. 33 Mountain Avenue Well	Active	256	902	4.0
No. 36 New Washington St	Active	317	1,149	5.1
No. 80 New 7th St Well	Active	199	575	2.5
San Jacinto Basin – Upper Pressure Sub-Basin				
No. 29 Quandt Well	Active	1,170	1,400	6.2
No. 90 Evans/Old Mtn Well	Active	2,223	1,800	8.0
No. 91 Ramona/Espl Well	Active	1,761	1,701	7.5
No. 92 Ramona/Hemet Well	Active	1,028	1,100	4.9
San Jacinto Basin – Hemet South Sub-Basin				
No. 35 Palm & Menlo Well	Active	357	911	4.0
San Jacinto Basin – Perris North Sub-Basin				
No. 55 Perris II Well	Active	438	750	3.3
No. 56 Perry Well	Active	1,669	1,041	4.6
No. 57 Follico Well	Active	234	826	3.7
No. 59 Indian Well	Active	1,620	1,000	4.4
Total Production[5]		12,473	19,605	86.7

(1) Tested capacity can vary with changes in water table.
(2) Groundwater extractions from this sub-basin were limited in Fiscal Year 2015 in order to retain sufficient groundwater therein to meet the District's obligations under the Settlement Act and the IRRP. See the caption "—Groundwater Supplies—Soboba Settlement Agreement."
(3) Excludes Well No. 14, from which 111 acre feet of groundwater was extracted in Fiscal Year 2015, because Well No. 14 was removed from production on April 21, 2015 and is not currently active.
(4) Groundwater is not currently being extracted from this well as a result of high levels of manganese.
(5) Except as noted in Footnote (3), reflects actual Fiscal Year 2015 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 to 1,696 feet. Pumping levels for production range from 100 to 516 feet. The 17 active production wells have a combined production capability of 19,605 gallons per minute, which equates to approximately 86.7 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 2,463 miles of pipeline ranging in diameter from 4 inches to 60 inches.

Pressure Zones. Because elevations within the District vary from approximately 1,120 to approximately 3,160 feet, the District's water distribution system includes 69 pressure zones which provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 90 pounds per square inch.

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

Storage Facilities. The District's water system includes 77 active water storage facilities located throughout the District. These facilities provide approximately 198 million gallons of storage. The active reservoirs are ground level circular steel tanks; in addition, there are five small hydro-pneumatic booster tanks and three small blending tanks, ranging in size from 0.08 million gallons to 8.4 million gallons. The ground level reservoirs are situated at elevations high enough to provide water by gravity flow. The reservoirs are used to store water for fluctuating hourly demands (regulating storage), fire flow demands and emergency purposes. Given these considerations, it is the District's intent to manage water storage efficiently by use of a telemetry system. The District's storage facilities maintain an approximately 2.3 day supply of water.

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

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

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

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

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

Connections to MWD Facilities

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

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

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

MWD Supplies

As discussed above, approximately 50% of District's water supply (including approximately 76% of its potable water supply) is imported from MWD. For Fiscal Year 2015, MWD supplied the District with approximately 68,271 acre feet of water. MWD member agencies, which use MWD water to supplement their own local water supplies, can be expected to increase their purchases of MWD water if their local water supplies are reduced. MWD reports that it had approximately 1.72 million acre feet of water in storage as of July 1, 2015, compared to approximately 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, 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 BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2016A 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 2016A BONDS UNDER RULE 15c2-12.

Drought Measures

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the "Declaration") with immediate effect. The Declaration includes the following orders, among others: (a) local urban water suppliers, including the District, are encouraged to implement their local water shortage contingency plans; the District's plan is discussed under the caption "—District Response to Drought;" (b) local urban water suppliers, including the District, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) DWR and the SWRCB are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the "Bay-Delta"), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions.

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

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

On May 6, 2015, the SWRCB adopted regulations in response to the Governor's executive order that require the District to effect a 28% reduction from 2013 water usage. On November 13, 2015, the Governor issued Executive Order B-36-15, which calls for an extension of urban water use restrictions until October 31, 2016 should drought conditions persist through January 2016.

On February 2, 2016, the SWRCB extended its previous emergency regulations through October 2016 while making available credits and adjustments of up to 8% in urban water suppliers' conservation mandates based upon climate, water-efficient growth and investments in drought-resilient supply sources. The District is currently applying for credits and adjustments but is unable to determine at this time whether its application will be approved by the SWRCB. The SWRCB will review the February 2, 2016 regulations in May 2016 to determine whether to give urban water suppliers more flexibility based on updated water supply information through April 2016.

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

The District is currently implementing the Stage 4C of its WSCP in response to the Declaration and the SWRCB's emergency measures. Stage 4C reduces Tier 2 water budgets by up to 100% (the current reduction amount is 70%) and eliminates Tier 3 budgets. Although average temperatures in fall 2015 were significantly higher than in fall 2013, to date, District customers have reduced water usage by an average of approximately 19% from 2013 usage. This reduction is less than the 28% threshold imposed by the SWRCB, and the District has received and responded to an information order from the SWRCB with respect to the District's efforts to cause its customers to reduce water usage further. The District is also engaging in a continuing effort to modify the SWRCB's regulations to reflect the District's climate, population growth and commercial agricultural land uses.

To date, although the SWRCB is empowered to impose fines of up to $500 per day (or approximately $15,000 per month) if water usage is not reduced by 28%, no attempt to impose such fines has been initiated. The District believes that penalty revenues from customers that exceed their water budgets will exceed the amount of any fines imposed by the SWRCB.

The District also undertakes written and telephonic outreach to customers whose water usage exceeds their tier budgets or otherwise has not been reduced below 28% from 2013 amounts.

The District estimates that the implementation of Stage 4C will not have a significant impact on single family residential customers but could increase landscape customer bills by approximately $100 per month. The District believes that the implementation of Stage 4C will enable it to reduce water usage by up to 28% from 2013 amounts in accordance with the SWRCB's regulations.

In some cases, actions taken pursuant to the Declaration could result in additional water being made available to the District, while in other cases, actions taken pursuant to the Declaration could reduce water supplies. The District believes that implementation of Stage 4C of the WSCP is likely to result in reduced revenues in Fiscal Year 2016 as users conserve water. While implementation of the WSCP in future years may result in lower water sales revenues, it is also likely to result in lower operating costs, in particular water purchase costs and energy costs for water deliveries. The District has retained a consultant to undertake a study of the District's rates in order to determine whether a revised rate structure would benefit the District or its customers.

Although the District believes that its groundwater and imported water supplies are stable or improving given increased attention to manage groundwater (as discussed under the caption "—Groundwater Supplies") and store surface water, State regulations to date have not been revised to reflect such facts. The projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" reflect reduced water sales as a result of the District's compliance with State of California mandates relating to the drought. The District does not believe that the implementation of Stage 4C of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the principal of and interest on the 2016A Bonds when due. See the Official Statement under the caption "SECURITY FOR THE 2016A 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 (such as the surcharge under MWD's WSAP discussed under the caption "—State Orders") to its member agencies could necessitate an increase in the District's water rates to District customers. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources."

Groundwater Supplies

General. The District produces approximately 12% of its total domestic water supply from 13 wells located on the east side of the San Jacinto groundwater basin (the "San Jacinto Basin") and approximately 6% of its total domestic water supply from 4 wells located on the west side of the San Jacinto Basin. To maintain its production capacity, the District is also in the process of drilling an additional well (Well 38) to replace a well (Well 28) that was recently taken out of production. The east side of the San Jacinto Basin also provides groundwater for the cities of Hemet and San Jacinto, LHMWD and private well owners; use by private well owners is primarily for agricultural irrigation. The District also produces approximately 6% of its total domestic supply from wells in the Perris South and Lakeview sub-basins that contain brackish water that must be desalinated prior to use.

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

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

To achieve a reduction of groundwater production to this level, an Adjusted Base Production Right (the "ABPR") was established for each of the participating public agencies that are subject to the Judgment. The ABPR quantity was reduced by 10% in the first year following the Judgment, with subsequent reductions of 7% per year required for the following five years in order to reduce groundwater production to a sustainable level. For the period from May 2016 through April 2017, the District's ABPR is 9,097 acre feet, which will be reduced to 7,303 acre feet by May 2018.

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 2016) on groundwater pumped up to the parties' respective base production amounts, which will be used to cover administrative costs of the Watermaster; and (ii) a replenishment assessment for groundwater pumped by the parties in excess of their respective base production amounts, which will be used to purchase water for groundwater recharge and to maintain facilities for such recharge; the Watermaster is currently evaluating the costs of purchasing water for groundwater recharge in consultation with the District and other agencies subject to the Judgment. Accordingly, the amount of such replenishment assessment has not yet been determined.

The District's groundwater programs include the following elements:

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

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

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

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

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

Recycled Water. Approximately 35% of the District's water supply consists of recycled water. In Fiscal Year 2015, the District produced approximately 46,366 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 by January 31, 2015. By January 31, 2017, local groundwater producers must establish or designate an entity (referred to as a groundwater sustainability agency, or "GSA"), subject to DWR's approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a groundwater sustainability plan for DWR's approval by January 31, 2020.

Alternatively, groundwater producers can submit a groundwater management plan under Part 2.75 of the California Water Code or an analysis for DWR's review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years. Such alternative plan must be submitted by January 31, 2017 and updated every five years thereafter.

GSAs 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, GSAs 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. GSAs 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. Although 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"), such portions of the San Jacinto Basin are not specifically exempt from the SGMA and the SWRCB is expected to clarify whether a GSA will be required for such areas. The District is currently in communication with the SWRCB and other stakeholders to determine whether it is appropriate for the District to become the GSA for such portions of the San Jacinto Basin, if a GSA is required.

The District is pursuing an appointment as the GSA for the unadjudicated west side of the San Jacinto Basin and believes that its effort has the support of other interested parties. The District does not currently expect its groundwater extraction rights or costs in the west side of the San Jacinto Basin to change significantly as a result of the enactment of the SGMA because the District is already managing such areas as part of the AB 3030 Groundwater Management Plan discussed under the caption "—Groundwater Management Activities," as permitted by the SGMA. The District believes that any modifications to the AB 3030 Groundwater Management to meet SGMA requirements will not have a significant fiscal impact, nor are they expected to have a material impact on the District's groundwater supply from such areas. All of the District's groundwater wells are currently metered, as required by the SGMA.

No assurance can be provided as to whether or when the District will ultimately become the GSA for any portion of the San Jacinto Basin. The District does not currently expect the enactment of the SGMA or the appointment of the District or another party as a GSA with respect thereto to have a material adverse effect on the District's ability to generate sufficient Net Revenues to pay the 2016A Bonds.

Other Programs. The District is currently exploring 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 other local agencies. Such water, together with captured stormwater runoff, 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 2,200 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 applied for 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." There can be no assurance as to the timing of the completion of such environmental impact report, nor can there be any assurance as to whether or when the SJV ERRP will ultimately be constructed as currently contemplated.

Quality of District Water

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

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

Water Production

The term "water production" describes the quantity of water the District obtains from all sources to meet its consumers' needs. These sources include the District's wells, desalination plants, District purchases from MWD and recycled water. It also includes losses incurred between the source and the ultimate use by the consumer. These losses may result from pipeline breaks, leakage, evaporation from operating reservoirs and metering discrepancies. Water production of the District for the last five Fiscal Years is shown in the following table:

TABLE 7
EASTERN MUNICIPAL WATER DISTRICT
Water Production in Acre Feet

Fiscal Year	Domestic Retail	Wholesale	Agriculture	Recycled Water	Total Production
2011	82,168	4,573	2,863	46,432	136,036
2012	83,944	3,610	2,708	46,937	137,199
2013	88,942	3,875	3,241	46,502	142,560
2014	88,422	7,218(1)	5,845(2)	47,707	149,192
2015(3)	81,407	3,306	4,647	46,366	135,725

(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. LHMWD did not purchase wholesale water in Fiscal Years 2011 through 2013.
(2) Increase from Fiscal Year 2013 reflects large purchases by agricultural customers during period of warm weather in the second half of 2013.
(3) Decrease from Fiscal Year 2014 reflects effect of Statewide drought and mandatory State conservation orders with respect thereto. See the caption "—Drought Measures."
Source: Eastern Municipal Water District.

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

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

Fiscal Year	Use (acre feet)[1][2]	Billed Accounts	Average Acre Feet Per Account
2011	75,462	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53

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

TABLE 9
EASTERN MUNICIPAL WATER DISTRICT
Water Deliveries in Acre Feet

Fiscal Year	Domestic Retail	Wholesale	Agriculture	Recycled Water[1]	Total Sales
2011	75,462	4,200	2,629	28,926	111,217
2012	79,752	3,580	2,116	34,679	120,127
2013	82,591	3,578	2,641	34,889	123,699
2014	84,650	4,294[2]	5,584	37,467	131,995
2015	76,832	3,082	4,446	35,617	119,977

(1) Differences from the "Recycled Water" production figures set forth in Table 7 reflect water loss as well as discharges of recycled water into local waterways during periods of heavy precipitation in accordance with the District's discharge permits. See the caption "WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters." The District expects to undertake capital improvements that will enhance its ability to store recycled water during periods of heavy precipitation and sell it during periods of high demand. See the caption "THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvement Plan."
(2) Excludes water delivered to LHMWD for agricultural use, as described in Footnote (1) to Table 7.
Source: Eastern Municipal Water District.

Water Sales and Deliveries

The District's ten largest customers (including both retail and wholesale customers) accounted for approximately 9.21% of the District's total water sales revenues in Fiscal Year 2015. These figures do not include recycled water users or agricultural customers.

For Fiscal Year 2015, the District had 144,255 domestic active billing accounts and 132 active agricultural/irrigation and other accounts. However, the number of billing accounts does not represent the actual number of District customers because one billing account can encompass multiple users or a multiple number of sites served. For example, one apartment complex can equal one billing account; in addition, if one developer owns two or more apartment complexes, the billing for all such complexes may be aggregated into a single billing account charged to that developer. A similar result may be obtained with respect to irrigation billing accounts. See the caption "DISTRICT SERVICE AREA" for historic water connections of the District.\

The District also provides wholesale water service to the cities of Hemet, Perris and San Jacinto, Western Municipal Water District, LHMWD, Nuevo Mutual Water Company and DWR. In Fiscal Years 2013, 2014 and 2015, wholesale water sales totaled approximately 3,578 acre feet, 4,294 acre feet and 3,082 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, 2015.

TABLE 10
EASTERN MUNICIPAL WATER DISTRICT
Largest Domestic Water Customers as of June 30, 2015[(1)]

Customer Name	Sales in Acre Feet	Annual Revenues
1. City of Perris[(2)]	1,984	$ 2,353,719
2. City of Moreno Valley	869	1,242,282
3. Valley-Wide Recreation and Park District	826	1,162,854
4. Western Municipal Water District[(2)]	990	1,140,114
5. Moreno Valley School District	896	1,095,454
6. Val Verde Unified School District	636	852,690
7. Riverside County Economic Development Authority	640	845,051
8. City of Murrieta	520	765,172
9. Country Meadows II Association	414	589,967
10. Stonegate at Towngate	370	443,162
Total	8,145	$ 10,490,465
Total domestic water sales	79,914[(3)]	$ 113,859,511
Top 10 customers as a percentage of total	10.19%	9.21%

(1) Data includes potable water sales to all non-agricultural customers.
(2) Wholesale customer.
(3) Includes wholesale sales of domestic water.
Source: Eastern Municipal Water District.

WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE

Wastewater Facilities

The District is currently divided into four sewer service areas—Hemet/San Jacinto, Moreno Valley, Temecula Valley and Perris Valley—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 68 mgd of wastewater and serve approximately 794,790 people. The facilities are linked to a network of nearly 1,799 miles of pipeline and 48 active lift stations. See the caption "DISTRICT SERVICE AREA" for historic wastewater connections of the District.

The design capacity, Fiscal Year 2014 average flow and average percentage of daily flows of each RWRF are provided below. See the caption "THE CAPITAL IMPROVEMENT PLAN" for a discussion of the District's Capital Improvement Plan.

TABLE 11
EASTERN MUNICIPAL WATER DISTRICT
Regional Water Reclamation Facilities

RWRF	Average Design Capacity (mgd)	Fiscal Year 2015 Daily Average Flow Treated (mgd)	Daily Average Flow as Percentage of Capacity
Moreno Valley[(1)]	15.0	11.6	77%
Perris Valley[(2)]	22.0	13.0	59
San Jacinto Valley[(3)]	14.0	6.3[(5)]	45
Temecula Valley[(4)]	18.0	13.9	77
Total	69.0	44.8	65

(1) Expansion to 16 mgd was completed in 2013. See the caption "THE DISTRICT—Debt Structure of the District—Parity State Loans."
(2) Expansion to 25 mgd was completed in 2014. Perris Plant 1, which provides approximately 3 mgd of capacity, is currently out of service.
(3) Expansion to 14 mgd was completed in November 2015. See the caption "THE DISTRICT—Debt Structure of the District—Parity State Loans."
(4) Expansion to 18 mgd was completed in 2014. See the caption "THE DISTRICT—Debt Structure of the District—Parity State Loans." The District is currently applying for an additional State Loan that is expected to be payable from Net Revenues on a parity with the 2016A Bonds. If approved, such additional State Loan will finance the further expansion of the Temecula Valley RWRF to 23 mgd. See the caption "THE DISTRICT—Debt Structure of the District—Subordinate Obligations."
(5) Amount excludes 3.7 mgd diverted to Perris Valley RWRF and included in Perris Valley RWRF flow amount.
Source: Eastern Municipal Water District.

Wastewater Facility Usage

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

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

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

Residential users not connected to the sewer system are provided service through the liquid waste hauler program, through which septic haulers can dispose of material in an economical manner at the Sanderson Lift Station in the Hemet/San Jacinto area or at the Perris Valley RWRF. These septic haulers are regulated though 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, 2015.

TABLE 12
EASTERN MUNICIPAL WATER DISTRICT
Largest Sewer Customers as of June 30, 2015

	Customer Name	Annual Revenues
1.	Pechanga Resort and Casino	$ 478,456
2.	Stonegate at Towngate	357,306
3.	New Highland Meadows	313,481
4.	Riverside County Economic Development Authority	237,951
5.	The Vineyards at Menifee	227,653
6.	Van Daele Development	220,990
7.	Murrieta Valley Unified School District	192,390
8.	Val Verde School District	179,404
9.	Hemet Unified School District	140,566
10.	Faircrest Homeowners Association	139,952
	Total	$ 2,488,149
	Total sewer revenue	$ 77,120,505
	Top 10 customers as a percentage of total	3.23%

Source: Eastern Municipal Water District.

District Recycled Water Supply

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

The District currently generates approximately 45 mgd of effluent at its four active RWRFs. The amount of effluent is expected to grow to 48 mgd by 2017. In Fiscal Year 2015, 100% of the total recycled water produced that was available for sale (approximately 36,000 acre feet) was sold to customers. Unsold recycled water, if any, is typically transferred to storage ponds and utilized to meet peak demands or is used for incidental groundwater recharge; a small amount is also lost to evaporation. Recycled water customers include 69 active agricultural sites, 6 golf courses, 218 landscape irrigation sites, 4 recreational clubs, 1 wildlife area, 1 power generation facility, 6 wholesale connections and 6 temporary construction meters. In Fiscal Year 2015, sales of recycled water in the District totaled $6,392,763.

Recycled Water Facilities and Application of Recycled Water

In addition to the four RWRFs, the District's recycled water facilities include approximately 215 miles of transmission and distribution pipelines, 21 pumping facilities and approximately 6,184 acre feet of storage and percolation ponds. All four of the District's RWRFs provide tertiary recycled water. See the caption "THE DISTRICT—Debt Structure of the District—Parity State Loans" for a discussion of the completed expansion and possible 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, sod farms, wetlands, cemeteries, commercial and industrial landscaping, park and school turf and purchasers of cooling water for power generation.

Regulatory Matters

As discussed above, the District owns and currently operates four RWRFs, a series of storage ponds, pump stations and distribution systems in its service area. The District's recycled water reuse program includes irrigation of agricultural, commercial and municipal landscaping sites as well as source water for one cooling tower. 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. Revision of the San Diego RWQCB Permit will be required if the District expands the Temecula Valley RWRF capacity above 18 mgd. Under the San Diego RWQCB permit, recycled water produced at the Temecula Valley RWRF can be discharged or reused within the Santa Margarita River watershed. The San Diego RWQCB Permit does not have an expiration date.

On March 14, 2014, the Santa Ana RWQCB adopted Order No. R8-2014-0016 amending Order No. R8-2008-0008 (collectively, the "Santa Ana RWQCB Permit") authorizing the District to discharge or reuse recycled water from the 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.

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

Approximately 50,291 wet tons of biosolids were produced from the District's RWRFs in 2014 and reported to the United States Environmental Protection Agency, the State of California and the State of Arizona. All RWRFs have belt press and centrifuge driers for sludge dewatering. The Temecula Valley and Moreno Valley RWRFs also have rotary drum sludge thickeners. Biosolids are the solid, stabilized organic materials generated from the wastewater treatment processes. The District's biosolids are currently hauled daily by a contractor to Arizona for landfill disposal or land application.

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

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

THE CAPITAL IMPROVEMENT PLAN

Background

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

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

The projects on the CIP are tracked during the current 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 $87 million in Fiscal Year 2016 on water, sewer, recycled water and general capital improvement projects. The District anticipates entering into additional debt to finance a portion of such projects, with the remainder paid from District reserves, all as described in Table 14 below. The five-year CIP for the current and next four Fiscal Years is estimated to total approximately $396 million, as summarized in the table below. All estimates include planning, design, construction, engineering, administration and right-of-way acquisition costs.

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

Fiscal Year	Water	Sewer	Recycled/Other	Annual Total
2016	$ 30	$ 27	$30	$ 87
2017	41	33	17	91
2018	43	44	10	97
2019	42	21	0	63
2020	43	14	2	59
Total	$199	$139	$59	$396

(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 State Loans which have been approved and anticipated additional State Loans and grants from public agencies.

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

Fiscal Year	District Pay-As-You-Go[2]	Approved and Additional State Loans and Subordinate or Parity Obligations[3]	Annual Total
2016	$ 0	$ 87	$ 87
2017	0	91	91
2018	23	73	97
2019	49	14	63
2020	59	0	59
	$131	$265	$396

(1) Totals may not add due to rounding.
(2) Includes grants.
(3) Includes application of a portion of the proceeds of the 2015B Bonds, the proceeds of previously issued District bonds and approved and additional anticipated State Loans in each of Fiscal Years 2016 through 2019. 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 were ruled by the California Supreme Court to be fees or charges for purposes of Proposition 218. As a result, new or increased water and sewer rates are subject to majority protest proceedings and cannot exceed the cost of providing service. For a summary description of the provisions and potential effect of Proposition 218 on the District, see the caption "—Certain Limitations on Taxes and Other Revenue Sources."

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

Under the Indenture relating to the 2016A Bonds, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (defined as Net Water and Sewer Revenues less all payments due on Parity Obligations) equal to 115% of the Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

See the Official Statement under the caption "SECURITY FOR THE 2016A BONDS—Rate Covenant."

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

The projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" reflect increases in water commodity rates and daily service charges averaging approximately 3.8% as of January 1, 2016, and increases in sewer rates averaging approximately 4.5% as of July 1, 2015. The Board adopted such rate increases on June 18, 2014. In addition, the projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" assume increases in water commodity rates and daily service charges averaging approximately 4.5% per annum, and increases in sewer rates averaging approximately 5.0% per annum, after Fiscal Year 2016. All of such rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption "—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

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

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

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

TABLE 15
EASTERN MUNICIPAL WATER DISTRICT
Current Water Rates

	Adopted Rates Effective January 1, 2016
Tier 1 (Indoor Use)(1)	$ 1.861
Tier 2 (Outdoor Use)(1)	3.405
Tier 3 (Excessive Use)(1)(2)	6.102
Tier 4 (Wasteful Use)(1)(2)	11.164
Fixed Charges	0.455

(1) Tiered rates are charged per 100 cubic feet.
(2) There is currently no water usage budgeted for Tiers 3 and 4 given the District's implementation of its WSCP. See the caption "WATER RESOURCES, FACILITIES AND USAGE—Drought Measures—District Response to Drought."
Source: Eastern Municipal Water District.

Sewer Rates and Charges. Sewer rates set forth in the table below were approved by the Board on June 18, 2014 and were effective July 1, 2015. On January 16, 2013, the Board approved a new sewer billing methodology effective February 1, 2013. Sewer rates are based on daily service charges that vary by geographic location within the District's service area. Currently, sewer daily service charges range from $0.795 to $1.084 per day, subject to the application of the sewer block factors outlined below.

TABLE 16
EASTERN MUNICIPAL WATER DISTRICT
Sewer Rate Structure

Block Number	Block Factor	Number of People in Household
1	0.75	1 – 2 people
2	1.00	3 – 4 people
3	1.25	5 – 6 people
4	1.75	7 people or more

Source: Eastern Municipal Water District.

The sewer service billing is calculated using the block factor multiplied by the sewer rate. This new sewer service billing methodology enables the District to reasonably charge for sewer service based on household service demands from the sewer system.

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

Service Area	Water (Effective January 1, 2016)				Sewer (Effective July 1, 2015)	
	7 Units[1] Tier 1	11 Units[1] Tier 2	Fixed Charges[2]	Average Monthly Rate[3]	Fixed Charges	Average Monthly[4]
Perris Valley	$1.861	$3.405	$0.455	$64.13	$1.084	$32.52
Menifee	1.861	3.405	0.455	64.13	0.823	24.69
Fruitvale	1.058	1.937	0.455	42.36	0.795	23.85
Diamond Valley	1.861	3.405	0.455	64.13	0.795	23.85
Moreno Valley	1.861	3.405	0.455	64.13	0.817	24.51
Temecula Valley	1.861	3.405	0.455	64.13	0.943	28.29

(1) A unit is a measure of water equal to 100 cubic feet.
(2) Water Fixed Charges include a $0.381 daily charge and a $0.0740 fixed charge for water supply and reliability capital projects.
(3) For example, a water billing for 1,800 cubic feet (18 units) of water for a period of 30 days in the Perris Valley would be calculated as follows: (7 units X $1.861 per Tier 1 unit) + (11 units X $3.405 per Tier 2 unit) + (30 days X $0.455 per day) = $64.13.
(4) For example, a sewer billing for 30 days of sewer service in the Perris Valley would be calculated as follows: 30 days X $1.084 per day = $32.52.
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

Fiscal Year	Water Sales	Sewer Service	Recycled Water	Total
2011	$102,479,984	$62,840,013	$4,504,923	$169,824,920
2012	104,741,242	65,983,462	5,135,186	175,859,890
2013	112,456,804	68,957,128	5,676,043	187,089,975
2014	122,724,175	73,100,086	6,125,420	201,949,681
2015	117,295,152	77,120,505	6,392,763	200,808,420

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 1, 2015 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, 2016 are $4,883 for water and $8,158 for sewer.

Although one-time connection fees constitute current Water and Sewer Revenues of the District, these amounts are retained by the District for application to its restricted construction fund in accordance with State of California law and utilized for expansion-related projects or used to pay debt service on expansion-related projects which have been financed. See the caption "HISTORICAL OPERATING RESULTS" for connection fee revenues for Fiscal Years 2011 through 2015.

Taxes. Moneys that are received from the District's share of the Riverside County 1% tax levy constitute Water and Sewer Revenues and are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. Only those special improvement districts receiving tax revenue when Proposition 13 became effective in 1978 are entitled to receive a share of the 1% county general purpose property tax levy, based on the allocation procedure under California law. The tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special improvement districts within the District. The District received $30,843,713 in property tax revenue from its share of the Riverside County 1% tax levy in Fiscal Year 2015.

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 2016 is approximately $61.3 billion, which is an increase of approximately 14.6% from the previous year. The District currently levies taxes only to service bonds of its special improvement districts. The proceeds of such taxes do not constitute Water and Sewer Revenues and are neither pledged to nor available to pay debt service on the 2016A Bonds.

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

Certain Limitations on Taxes and Other Revenue Sources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water and Sewer Revenue Fund is not clear. However, to the extent that moneys in the Water and Sewer Revenue Fund are used to pay the costs of maintaining and operating the Water and Sewer System and debt service on Parity Obligations (including the funding of the debt service reserve funds) and Subordinate Obligations, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit. The District is of the opinion that its water and wastewater charges do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District has covenanted in the Master Resolution that it will prescribe rates and charges sufficient to provide for payment of the principal of and interest on the 2016A Bonds and other Subordinate Obligations in each year. See the Official Statement under the caption "SECURITY FOR THE 2016A BONDS—Rate Covenant."

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

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

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

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

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

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

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

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

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

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

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

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

The Court specifically declined to determine in Bighorn whether the voters' initiative power is limited by the statutory requirement that service charges must be set at a level that will pay for operating and maintenance, repairs, replacements, and debt service because "[t]hat issue is not currently before us." In any event, the District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2016A Bonds. Remedies available to Beneficial Owners of the 2016A 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 Indenture are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel delivered with respect to the Indenture, including the opinion of Bond Counsel (the form of which is attached as Appendix D), were similarly qualified.

Based on the foregoing, the District's ability to adopt new fees or charges or increase existing fees or charges for water or wastewater service will be subject to both majority protest prior to adoption and to the initiative process thereafter. For similar reasons, wholesale customers of the District (for example, the cities of Perris, Hemet and San Jacinto and water districts such as Elsinore Valley Municipal Water District) may be limited in their ability to raise sufficient revenues through fees and charges to pay for wholesale services, which could also have an adverse impact on the District's ability to generate Net Revenues sufficient to pay principal of and interest on the 2016A 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 currently expect the Capistrano Taxpayers Association ruling to affect its water rate structure or have a material adverse effect on its financial condition.

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

Proposition 26

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

Pension Plan

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

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

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

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 2015 and 2016 were 16.136% and 17.812%, respectively. In the CalPERS Actuarial Valuation report dated October 2015, reported as of June 30, 2014, CalPERS provided a projected annual contribution rate for Fiscal Year 2017 of 19.163%.

For Fiscal Years 2015 and 2016, the District elected to make its annual actuarially-determined employer contributions in a lump sum pre-payment option to CalPERS in the sum of $8,160,464 and $8,782,080, respectively.

Plan participants are required to contribute an actuarially determined percentage of their annual covered salary under the CalPERS plan (the "Employee Contributions") in the amounts of 8%, 7%, and 6.25%, for employees in the first, second and third pension tiers, respectively. The District makes a portion of the Employee Contributions on behalf of employees (the "EPMC"). The EPMC for employees in the first pension tier is being reduced over the three-year term of the MOU (as discussed under the caption "THE DISTRICT—Employee Relations"); the District paid 6.5% of the 8% Employee Contribution (or 81.25% of the total Employee Contribution) in the first year (generally Fiscal Year 2014), is paying 5.5% of the 8% Employee Contribution (or 68.75% of the total Employee Contribution) in the second year (generally Fiscal Year 2015) and will pay 4% of the 8% Employee Contribution (or 50% of the total Employee Contribution) in the third year (generally Fiscal Year 2016). The EPMC for employees in the second tier is 3% of the 7% Employee Contribution (or approximately 43% of the Employee Contribution for employees in the second tier). Under AB 340, the District cannot and does not make EPMC contributions for employees in the third tier.

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: (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 will be required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities will be 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 in Appendix B for further information with respect to GASB 68.

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

Fiscal Year	Actuarially-Determined Contribution (formerly Annual Required Contribution) (A)	District-Funded Employee Contribution (EPMC) (B)	Employee Contribution (C)	Annual Pension Cost ((A)+(B)+(C))	Percentage of APC Contributed	Net Pension Obligation/ Asset
2011	$5,365,705	$3,299,466	$ 483,794	$ 8,665,171	100%	$ -
2012	7,462,257	3,489,805	543,612	10,952,062	100	-
2013	7,005,690	3,230,477	555,914	10,236,167	100	-
2014	7,695,750	3,043,506	772,559	10,739,256	100	-
2015	8,160,464	2,626,406	1,321,597	12,108,467	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.

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 2015, 2014 and 2013 were $781,765, $831,743 and $744,076, 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 1.0% and 1.5% of annual base salary for calendar years 2015 and 2016, respectively. In Fiscal Years 2014 and 2015, employees voluntarily deferred $2,313,609 and $2,238,902, respectively, into the 457 Deferred Contribution Plan and the District provided matching funding of $96,997 and $378,780, respectively, into the 401(a) Plan. The District does not fund contributions into the 457 Deferred Compensation Plan.

Post-Employment Healthcare Benefits

The District provides post-employment health care benefits to all qualified employees who meet the District's CalPERS plan requirements. This plan is an agent multiple-employer defined benefit other post-employment benefits ("OPEB") plan 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, 2013, the OPEB ARC for Fiscal Year 2015 is $8,568,000.

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

However, on April 18, 2012, the Board approved the establishment of an irrevocable OPEB trust (the "OPEB Trust") and approved and authorized an agreement with CalPERS to administer the OPEB Trust on its behalf. The District established the OPEB Trust in Fiscal Year 2013 and made initial contributions to the OPEB Trust of approximately $2,500,000. At the time the OPEB Trust was established, the District planned to contribute an amount approximately equal to 10% of the share of the 1% Riverside County general property tax levy that the District receives annually. See the caption "—Non-Operating Revenues—Taxes." Based on the actuarial valuation as of June 30, 2013, the actuarial unfunded liability of the District's OPEB plan was approximately $87,767,000.

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:

Fiscal Year	Annual OPEB Cost[1]	Annual OPEB Cost Contributed	Net OPEB Obligation[2]
2011	$11,505,000	$2,256,318	$31,596,760
2012	15,286,000	2,788,000	44,191,171
2013	11,852,000	5,740,000	50,212,171
2014	8,469,000	6,123,000	52,339,036
2015	8,568,000	8,842,531	51,927,505

(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 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 $125 per month for 2016, and generally indexed by CalPERS annually to the Consumer Price Index.

- The District will continue to use appropriate assumptions in its assumed rates of return, rates of medical inflation, retirement ages and mortality tables in consultation with its professional actuaries.

- The District will consider using one-time gains in net operating margin to make additional contributions to the OPEB Trust to reduce the liability sooner and potentially achieve its funding goal sooner than Fiscal Year 2033-34.

- If necessary to achieve the funding goals noted above, the District will consider other funding sources including, but not limited to, a rate component and employee and/or retiree contributions.

- The District will formally re-evaluate funding strategies at least biennially, coincident with required actuarial valuations.

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

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

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

Under GASB Statement No. 75 ("GASB 75"), beginning in Fiscal Year 2018, the District will be required to report 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 will also require the District to present more extensive disclosures and required supplementary information about its OPEB liabilities in the notes to its future 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 audited Fiscal Year 2015 results and the audited financial statements of the District for prior years. The audited financial statements of the District for Fiscal Year 2015 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 Indenture under which the 2016A Bonds are being issued. The Auditor has not reviewed or audited the summary operating results or any other portion of the Official Statement.

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

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
OPERATING REVENUES:					
Water Sales	$102,479,984	$104,741,242	$112,456,804	$122,724,175	$117.295,152
Sewer Service Charges	62,840,013	65,983,462	68,957,128	73,100,086	77,120,505
Recycled Water Sales	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763
Total Operating Revenues	$169,824,920	$175,859,890	$187,089,975	$201,949,681	$200,808,420
OPERATING EXPENSES:					
Water purchases	$ 46,489,850	$ 52,697,993[2]	$ 58,445,847[2]	$ 63,850,688[2]	$ 59,040,009
Water operations	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510
Sewer operations	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706
OPEB Trust[1]	-	2,620,589	5,740,000	6,123,000	8,568,000
General and administrative	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026
Total Operating Expenses	$161,913,723	$170,277,422	$179,845,275	$191,222,357	$190,822,251
OPERATING INCOME (LOSS)	$ 7,911,197	$ 5,582,468	$ 7,244,700	$ 10,727,324	$ 9,986,169
NON-OPERATING REVENUES:					
Property taxes - General Purpose	$ 25,884,964	$ 26,574,300	$ 27,243,490	$ 28,061,489	$ 30,843,713
Standby charges	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466
Wastewater connection fees	7,176,760	8,730,097	14,679,805	21,162,000	18,690,317
Water connection fees	3,575,158	3,428,721	4,077,007	7,506,888	8,079,280
Water supply development fee	528,718	480,955	1,645,651	1,480,973	1,538,026
Water and sewer frontage fees[3]	63,376	(7,992)	(38,278)	-	-
Interest income	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643
Grants/Other Income/(Expenses)	17,336,255	17,881,648	15,470,830	6,161,906	4,659,388
Total Non-Operating Revenues	$ 67,799,240	$ 70,120,356	$ 73,198,875	$ 73,207,160	$ 72,638,833
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE	$ 75,710,437	$ 75,702,824	$ 80,443,575	$ 83,934,484	$ 82,625,002
PARITY OBLIGATION DEBT SERVICE:					
Parity Obligation Payments	$ 32,731,966	$ 37,044,680	$ 35,061,971	$ 35,521,108	$ 26,604,369
State Loan Debt Service Payments	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892
Total Parity Obligation Debt Service	$ 38,435,569	$ 41,159,796	$ 39,384,199	$ 39,534,461	$ 32,482,261
DEBT SERVICE COVERAGE	2.0 x	1.8 x	2.0 x	2.1 x	2.5 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	$ 37,274,868	$ 34,543,028	$ 41,059,376	$ 44,400,023	$ 50,142,741
SUBORDINATE OBLIGATION DEBT SERVICE					
Subordinate Obligation Payments	$ -	$ -	$ -	$ -	$ 2,917,542
State Loan Debt Service Payments	-	-	-	-	-
Total Subordinate Obligation Debt Service	$ -	$ -	$ -	$ -	$ 2,917,542
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	N/A	N/A	N/A	N/A	17.2 x
REMAINING REVENUES	$ 37,274,868	$ 34,543,028	$ 41,059,376	$ 44,400,023	$ 47,225,199
TOTAL DEBT SERVICE	$ 38,435,569	$ 41,159,796	$ 39,384,199	$ 39,534,461	$ 35,399,803
ALL-IN DEBT SERVICE COVERAGE	2.0 x	1.8 x	2.0 x	2.1 x	2.3 x

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

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

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

Source: Eastern Municipal Water District.

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

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

PROJECTED OPERATING RESULTS

The table of projected District revenues and expenses and debt service coverage for the current and next four Fiscal Years has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances. 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 Indenture under which the 2016A Bonds are being issued. This information has been provided for comparison purposes. The assumptions for operating revenue, operating expenses and debt service are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See Table 4 above under the caption "THE DISTRICT—Debt Structure of the District—Summary of Parity Obligation Debt Service" for a presentation of actual debt service with respect to outstanding Parity Obligations and Subordinate Obligations payable from Net Water and Sewer Revenues.

As discussed under the caption "WATER RESOURCES, FACILITIES AND USAGE—Drought Measures," the California Governor has declared a drought state of emergency and the Governor and various State of California entities have issued orders and regulations in connection therewith. In response to such measures, the District is currently implementing Stage 4C of its WSCP. The below projections reflect reduced water supplies and sales as a result of the District's compliance with State of California mandates relating to the drought. There can be no assurance that water supplies or sales will not differ materially from the below projections as a result of changes in hydrological conditions or the State of California or District response thereto in future years. The District does not believe that the implementation of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the principal of and interest on the 2016A 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 sufficient to pay debt service on the 2016A Bonds. See the Official Statement under the caption "SECURITY FOR THE 2016A BONDS—Rate Covenant."

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

	Fiscal Year 2016[1]	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
OPERATING REVENUES:					
Water Sales[2]	$111,516,231	$112,590,948	$122,553,541	$132,964,450	$143,843,851
Sewer Service Charges[3]	82,940,102	89,453,592	94,833,497	100,326,850	105,343,193
Recycled Water Sales[4]	9,053,830	9,506,522	9,981,848	10,480,940	11,004,987
Total Operating Revenues	$203,510,163	$211,551,062	$227,368,886	$243,772,240	$260,192,031
OPERATING EXPENSES:					
Water purchases[5]	$ 48,763,855	$ 50,470,589	$ 52,237,060	$ 54,065,357	$ 55,957,645
Water operations[6]	49,049,270	47,866,166	51,239,341	53,426,039	55,625,900
Sewer operations[7]	49,263,694	53,497,891	54,942,334	56,425,777	57,949,273
OPEB Trust[8]	8,553,164	10,691,455	12,295,173	13,524,691	14,200,925
General and administrative[9]	31,179,068	32,660,941	33,640,769	34,649,992	36,035,992
Total Operating Expenses	$186,809,051	$195,187,042	$204,354,677	$212,091,856	$219,769,735
OPERATING INCOME (LOSS)	$ 16,701,112	$ 16,364,020	$ 23,014,208	$ 31,680,384	$ 40,422,295
NON-OPERATING REVENUES:					
Property taxes - General Purpose[10]	$ 31,152,150	$ 31,463,672	$ 31,778,308	$ 32,096,091	$ 32,417,052
Standby charges[11]	5,726,700	5,726,700	5,783,967	5,841,807	5,900,225
Wastewater connection fees[12]	28,596,867	30,951,196	33,346,824	35,768,234	38,499,139
Water connection fees[13]	12,439,825	13,462,350	14,508,875	15,559,544	16,747,515
Water supply development fee[14]	772,500	811,800	849,300	884,400	924,198
Interest income[15]	2,850,000	2,260,844	5,091,670	7,539,481	8,507,288
Grants/Other Income/(Expenses)[16]	8,500,000	6,500,000	6,500,000	6,500,000	6,500,000
Total Non-Operating Revenues	$ 90,038,042	$ 91,176,562	$ 97,858,945	$104,189,557	$109,495,417
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE[17]	$106,739,154	$107,540,582	$120,873,153	$135,869,941	$149,917,712
PARITY OBLIGATION DEBT SERVICE:					
Parity Obligation Payments[18]	$ 28,886,452	$ 20,474,431	$ 16,467,181	$ 17,169,549	$ 16,986,994
State Loan Debt Service Payments[19]	8,527,729	6,521,018	6,521,018	6,521,018	6,521,018
Total Parity Obligation Debt Service	$ 37,414,181	$ 26,995,448	$ 22,988,198	$ 23,690,567	$ 23,508,012
PARITY OBLIGATION DEBT SERVICE COVERAGE[20]	2.9 x	4.0 x	5.3 x	5.7 x	6.4 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS[21]	$ 69,324,973	$ 80,545,134	$ 97,884,955	$112,179,374	$126,409,700
SUBORDINATE OBLIGATION DEBT SERVICE[22]					
Subordinate Obligation Payments[18]	$ 5,045,229	$ 18,726,062	$ 23,231,883	$ 24,252,800	$ 24,210,431
State Loan Debt Service Payments[19]	-	-	215,801	303,912	303,912
Total Subordinate Obligation Debt Service	$ 5,045,229	$ 18,726,062	$ 23,447,684	$ 24,556,712	$ 24,514,343
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE[23]	13.7 x	4.3 x	4.2 x	4.6 x	5.2 x
REMAINING REVENUES[24]	$ 64,279,744	$ 61,819,072	$ 74,437,271	$ 87,622,662	$101,895,357
TOTAL DEBT SERVICE[25]	$ 42,459,410	$ 45,721,510	$ 46,435,882	$ 48,247,279	$ 48,022,355
ALL-IN DEBT SERVICE COVERAGE[26]	2.5 x	2.4 x	2.6 x	2.8 x	3.1 x

(FOOTNOTES ON FOLLOWING PAGE)

(1) Reflects actual Fiscal Year 2016 results through November 2015 and projected Fiscal Year 2016 results thereafter.

(2) Reflects reductions in water sales resulting from District response to drought conditions. See the caption "WATER RESOURCES, FACILITIES AND USAGE—Drought Measures." Based on District projections of increases in connections, approved rate increases of an average of approximately 3.8% effective January 1, 2016 and projected rate increases of approximately 4.5% per annum thereafter. Also reflects $1.75 monthly Water Reliability Capital Charge beginning January 1, 2015, increasing to $2.25 monthly beginning January 1, 2016, to offset MWD's water rates and rising energy and labor costs. Assumes additional $1.00 monthly fixed charge effective July 1, 2016 and additional $3.00 monthly fixed charge effective July 1, 2017, 2018 and 2019. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Water sales projected at approximately 69,000 acre feet per year. Increases in rates and charges are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

(3) Based on District projections of increases in connections, adopted rate increases of approximately 4.5% effective July 1, 2015 and projected rate increases of approximately 5.0% per annum thereafter to cover energy, labor and other operational costs. Also reflects $1.50 monthly Sewer Capital Charge beginning July 1, 2016, increasing to $2.00 monthly beginning July 1, 2017. See the captions "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Increases in rates and charges are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

(4) Based on District projections of increases in connections and projected rate increases of 5.0% per annum. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

(5) Based on District projections. Reflects reductions in water purchases resulting from District response to drought conditions. See the caption "WATER RESOURCES, FACILITIES AND USAGE—Drought Measures." Also reflects MWD rates set forth in Table 5 under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California." Does not include costs associated with water purchases for groundwater recharge purposes under the Settlement Act as described under the caption "WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Soboba Settlement Agreement." Assumes potable water supply mix of 70% imported water, or approximately 56,000 acre feet, in each of Fiscal Years 2016 and 2017.

(6) Based on District projections. In Fiscal Year 2016, water operating costs are projected to increase by approximately 7.3%, reflecting projected increases in conservation costs and well maintenance expenses.

(7) Projected to increase by approximately 1.0% per annum in Fiscal Year 2016, reflecting projected increases in energy and chemical costs, approximately 8.5% in Fiscal Year 2017, reflecting historical trends, and approximately 2.7% per annum thereafter.

(8) Reflects projected deposits to OPEB Trust described under the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits."

(9) Fiscal Year 2016 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 approximately 1.0% per annum from Fiscal Year 2015 amount, 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 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. Increase from Fiscal Year 2015 amount in Fiscal Year 2016 reflects increased development within the District's service area in the first half of Fiscal Year 2016. Sewer EDUs are projected to increase from 3,679 in Fiscal Year 2016 to 4,400 in Fiscal Year 2020. The proposed rates over the forecast period range from $7,773 per EDU in Fiscal Year 2016 to $8,749 per EDU in Fiscal Year 2020. 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. Increase from Fiscal Year 2015 amount in Fiscal Year 2016 reflects increased development within the District's service area in the first half of Fiscal Year 2016. Water EMSes are projected to increase from 2,575 in Fiscal Year 2016 to 3,081 in Fiscal Year 2020. The proposed rates over the forecast period range from $4,831 in Fiscal Year 2016 to $5,436 in Fiscal Year 2020. 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, 2015, the District had approximately $268.1 in available cash reserves, representing approximately 524 days cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately $435 million and is invested in various securities with an average yield of approximately 0.88% as of December 31, 2015. See the caption "THE DISTRICT—District Reserve Policy."

(16) Includes delinquency charges, industrial permitting, meter rentals, plan checks and other miscellaneous revenues, which are projected to remain stable, plus grant revenues, less disposal of plant assets, abandonments, bad debt expense, special studies and miscellaneous interest expenses. Net other income is projected to remain stable at approximately $4,642,000 per annum.

(17) Operating Income (Loss) plus Total Non-Operating Revenues.

(FOOTNOTES CONTINUED ON FOLLOWING PAGE)

(FOOTNOTES CONTINUED FROM PREVIOUS PAGE)

(18) See the caption "THE DISTRICT—Debt Structure of the District." Variable rates of interest over the forecast period are assumed at of 0.80%, 1.20%, 1.80%, 2.50% and 2.50% for Fiscal Years 2016 through 2020, respectively. Fiscal Year 2016 reflects debt service on 2006A Certificates, which are being prepaid from proceeds of the 2016A Bonds. See the Official Statement under the caption "THE REFUNDING PLAN—2006A Certificates."

(19) All State Loans except for the State Loan described in Table 3B are assumed to be Parity Obligations. See the caption "THE DISTRICT—Debt Structure of the District." Reflects refunding of certain State Loans from proceeds of the 2016A Bonds. See the Official Statement under the caption "THE REFUNDING PLAN—State Loans."

(20) Net Water and Sewer Revenues for Debt Coverage divided by Total Parity Obligation Debt Service.

(21) Net Water and Sewer Revenues for Debt Coverage minus Total Parity Obligation Debt Service.

(22) Reflects debt service on the 2014A Bonds, 2014B Bonds and 2015A Bonds at projected interest rates of 0.80%, 1.20%, 1.80%, 2.50% and 2.50% for Fiscal Years 2016 through 2020, respectively. Reflects debt service on the 2014C Bonds at a projected interest rate of 3.10% per annum. Reflects scheduled debt service on the 2015B IPA and the 2016A Bonds. Differs from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions.

(23) Revenues Available for Subordinate Obligations divided by Total Subordinate Obligation Debt Service.

(24) Revenues Available for Subordinate Obligations minus Total Subordinate Obligation Debt Service.

(25) Total Parity Obligation Debt Service plus Total Subordinate Obligation Debt Service.

(26) Net Water and Sewer Revenues for Debt Coverage divided by Total Debt Service.

Source: Eastern Municipal Water District.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2015

EASTERN MUNICIPAL WATER DISTRICT

SINCE 1950

Eastern Municipal Water District

Perris, California
www.emwd.org

On the Cover:

EMWD's Recycled Water Retrofit Program targets public agencies, schools, parks, and cities with the objective of offsetting potable water use while focusing on maintaining functional turf for public benefit.

Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2015

PREPARED BY THE FINANCE DEPARTMENT

2270 Trumble Road • Box 8300 • Perris, CA 92572-8300 • www.emwd.org

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EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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EASTERN MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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San Jacinto Regional Water Reclamation Facility

The $157 million expansion project which began in 2011 was completed in 2015, giving the facility a maximum capacity of 14 million gallons per day. Prior to work beginning on the site, the plant's capacity was rated at 7.5 million gallons per day.

Not only will the new facility increase capacity to prepare the District for the anticipated growth in population and development throughout the San Jacinto Valley, but it is designed to meet more stringent State regulations for the treatment of wastewater and the production of recycled water.

INTRODUCTORY SECTION

November 12, 2015

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, 2015. 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 assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified ("clean") opinion on the District's financial statements for the year ended June 30, 2015. 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.

Mailing Address: Post Office Box 8300 Perris, CA 92572-8300 Telephone: (951) 928-3777 Fax: (951) 928-6177
Location: 2270 Trumble Road Perris, CA 92570 Internet: www.emwd.org

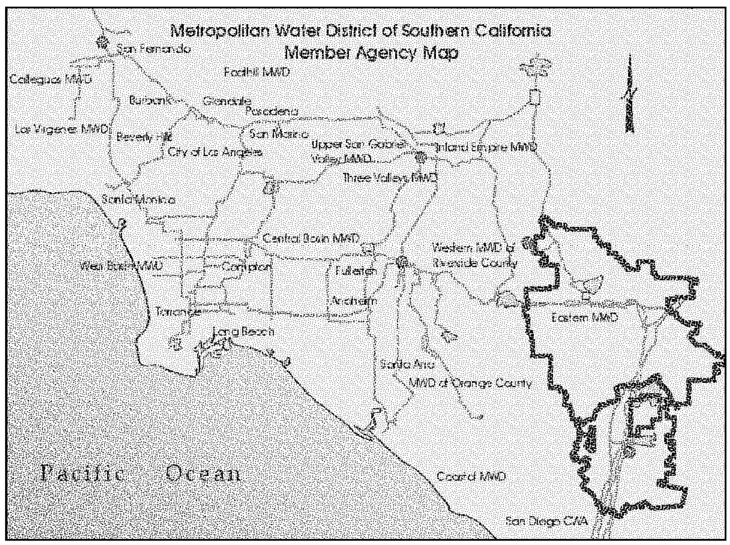
Profile of the District

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

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

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

Service Area



The District is located in southern California and its service area lies within the westerly third of Riverside County, encompassing approximately 355,200 acres (555 square miles). The map to the right indicates the location of the District's service area in southern California. When the District was annexed to the Metropolitan Water District of Southern California (MWD) by the District's voters in 1951, its service area consisted of 86 square miles. Growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from $72.0 million when formed to approximately $61.3 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County's population increased to approximately 2.3 million as of January 2014. Of this population, the District serves approximately 795,000 (35 percent), including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Wildomar and unincorporated areas in Riverside County.

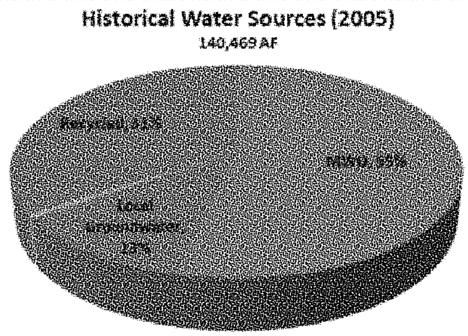
Governance

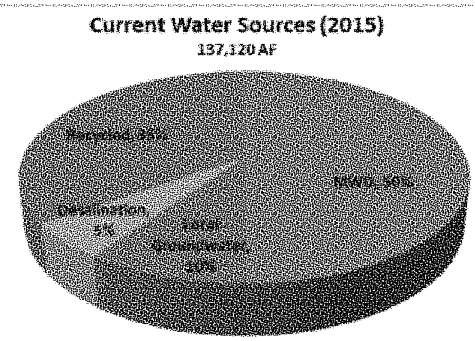
The District is governed by a Board of five directors, who are elected by the public for four-year terms from comparably sized districts based on population. The District is a member of the MWD, which is a cooperative organization of 26 cities and water agencies that are responsible for providing imported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

Water Supply and Reliability

The District's water supply for the fiscal year ended June 30, 2015 includes local groundwater (15 percent), imported water (50 percent) and recycled water (35 percent). The sole source of the District's imported water is MWD.

The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 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. By 2015, the District reduced the level of imported water to 50 percent of supply as a result of investments in local groundwater, desalination, and recycled water improvements.





Sewer and Recycled Water Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRF), for which costs and methods of treatment vary. The facilities are capable of treating 70 million gallons per day (MGD) of wastewater and serve approximately 785,000 people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to future infrastructure replacement costs. They are linked to a network of 1,813 miles of pipeline and 47 active lift stations.

The District currently generates approximately 45 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 local groundwater supply. In Fiscal Year 2015, 100 percent of the total recycled water produced which was available for sale (approximately 35,617 acre feet) was sold to customers.

Information Useful in Assessing Economic Condition

Local Economy

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

The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/Long Beach complex, Los Angeles International Airport, Ontario International Airport, and Port of San Diego. Additionally, the March Air Reserve Base (March ARB), a 12 square-mile airfield and logistic center, is located in the District. In 2015, more than one in four new jobs created in the region were in the logistics industry. Also in 2015, luxury car maker Karma Automotive (formerly Fisker) developed an electric car manufacturing plant in Moreno Valley, the first new car manufacturing facility built in Southern California in decades.

The region is served by several medical centers and research universities. In 2013, University of California, Riverside (UCR) began enrollment in the first new UC medical school program in four decades. In addition, Kaiser Permanente acquired property to develop a 824,000 square-foot hospital in Murrieta, which follows the opening of Loma Linda University, a 256,000 square-foot hospital with 106 beds that also opened in Murrieta in 2011.

Sound Financial Policies

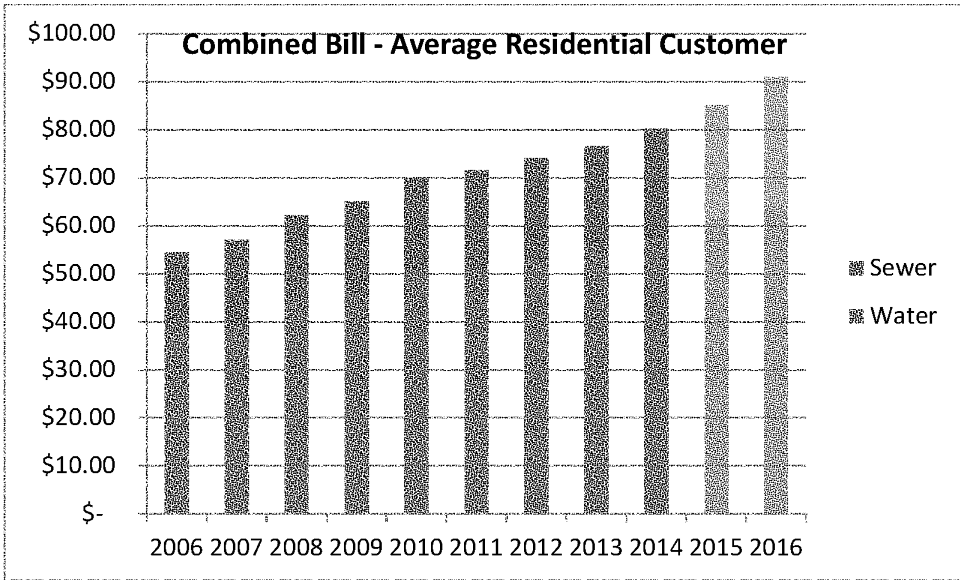
The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

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

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

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



Financial Planning

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

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

Reserves Policy

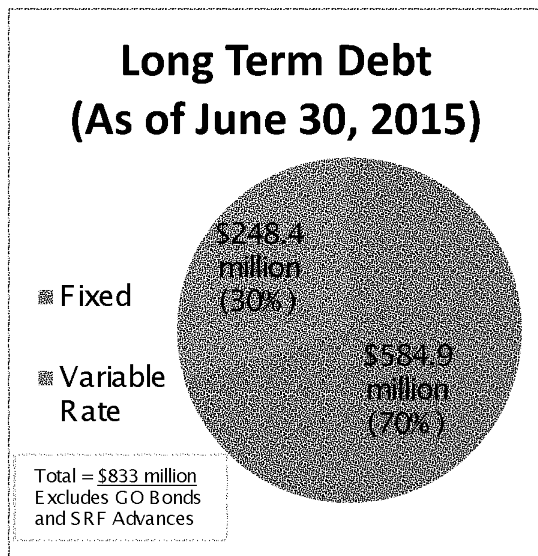
The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District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

Administrative Code and Investment Policy

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

Debt Administration

The District actively manages its debt portfolio, and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued certificates of participation (COPs), revenue bonds (Bonds), and has borrowed from state revolving fund (SRF) loans to fund its CIP. As of June 30, 2015, the District's total COPs, Bonds, and SRF loans outstanding, excluding the San Jacinto Z LLC loan, debt premiums and SRF construction advances, was $833 million, of which 70 percent were fixed interest rate and 30 percent were variable interest rate, with a weighted average cost of funds of 2.62 percent.



During Fiscal Year 2015, the District refunded the nearly $150 million in parity-lien certificates of participation with subordinate refunding revenue bonds. In addition, the District issued $74 million in subordinate lien, new money revenue bonds to fund various water and sewer projects. Also, the District novated two interest rate swaps, resulting in a higher rated counterparty and migration from parity to subordinate lien.

The District's long-term parity debt are rated AA+, Aa2, AA and the subordinate bonds are rated AA, Aa3, AA- by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively, as of June 30, 2015.

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Major Initiatives

Water Supply Development and Management

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

- Groundwater Management – As part of the Integrated Recharge and Recovery Program, the District implemented a cooperative groundwater management plan for the Hemet and San Jacinto basins. The plan will help to increase the District's ability to sustain local groundwater production and provide for the protection and enhancement of the water quality of the basins. In support of this plan, the District completed construction and replacement of various facilities, including pipelines, booster stations, wells, pumps, and recharge ponds.
- Brackish Groundwater Desalination – The District has constructed two desalters with a combined annual capacity of 9,600-acre feet. A third desalter is in the final design phase and will expand the desalination program capacity to 15,000-acre feet per year. In addition, the District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants, as well as reduce brine disposal costs.
- Recycled Water – The District has identified recycled water as a separate product line with a strategic objective to utilize one hundred (100) percent of treated effluent water from its wastewater reclamation plants. System infrastructure was expanded with the addition of recycled water storage tanks, ponds, pumps booster stations and pipelines. The FY 2014-15 Recycled Water System Management Plan includes both demand management and shortage contingency elements and identifies available supplies, demands, system capacity
- Water Shortage Contingency Plan – In January 2014, the Governor declared a drought state of emergency; encouraged local suppliers to reduce usage by 20 percent, and have local suppliers develop or update water contingency plans. The District amended its water shortage contingency plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP includes five stages, with the first 2 stages being voluntary measures to encourage conservation. Stage 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use. On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (SWRCB) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. On May 6, 2015, the SWRCB adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. Effective June 1, 2015, the District implemented Stage 4a (Mandatory Outdoor Reduction) of the WSCP, which calls for customer to reduce outdoor irrigation by 50 percent and reduced tier 2 water budgets by 10 percent. The District is currently in a Stage 4b, which reduces tier 2 water budgets by 30 percent. As of October 2015, the District has reduced potable urban water use by 20 percent.

Operational Efficiencies

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

- A long-term financial plan (LTFP) to forecast financing requirements and funding sources was developed and presented to the Board. The results of the LTFP were used to develop the inaugural Biennial Budget for FY 2014-15 and FY 2015-16.

- As a strategy to decrease Other Post Employment Benefit (OPEB) unfunded liabilities, in July 2012 and July 2013, the District began funding future costs with initial $2.5 and $2.7 million deposits, respectively, to its trust account with the California Employer's Retiree Benefit Trust Program. During FY 2013-14, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles.

- The District implemented a debt portfolio optimization project which resulted in the restructuring and refunding of several series of bonds. These financings resulted in the reduction of annual debt service from 2015 through 2024, release of reserve funds to fund capital projects, and additional flexibility to fund future projects with the new working lien (subordinate lien).

Accounting Systems

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

Internal Controls

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the eleventh consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,

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

Deborah S. Cherney, CPA
Deputy General Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Eastern Municipal Water District

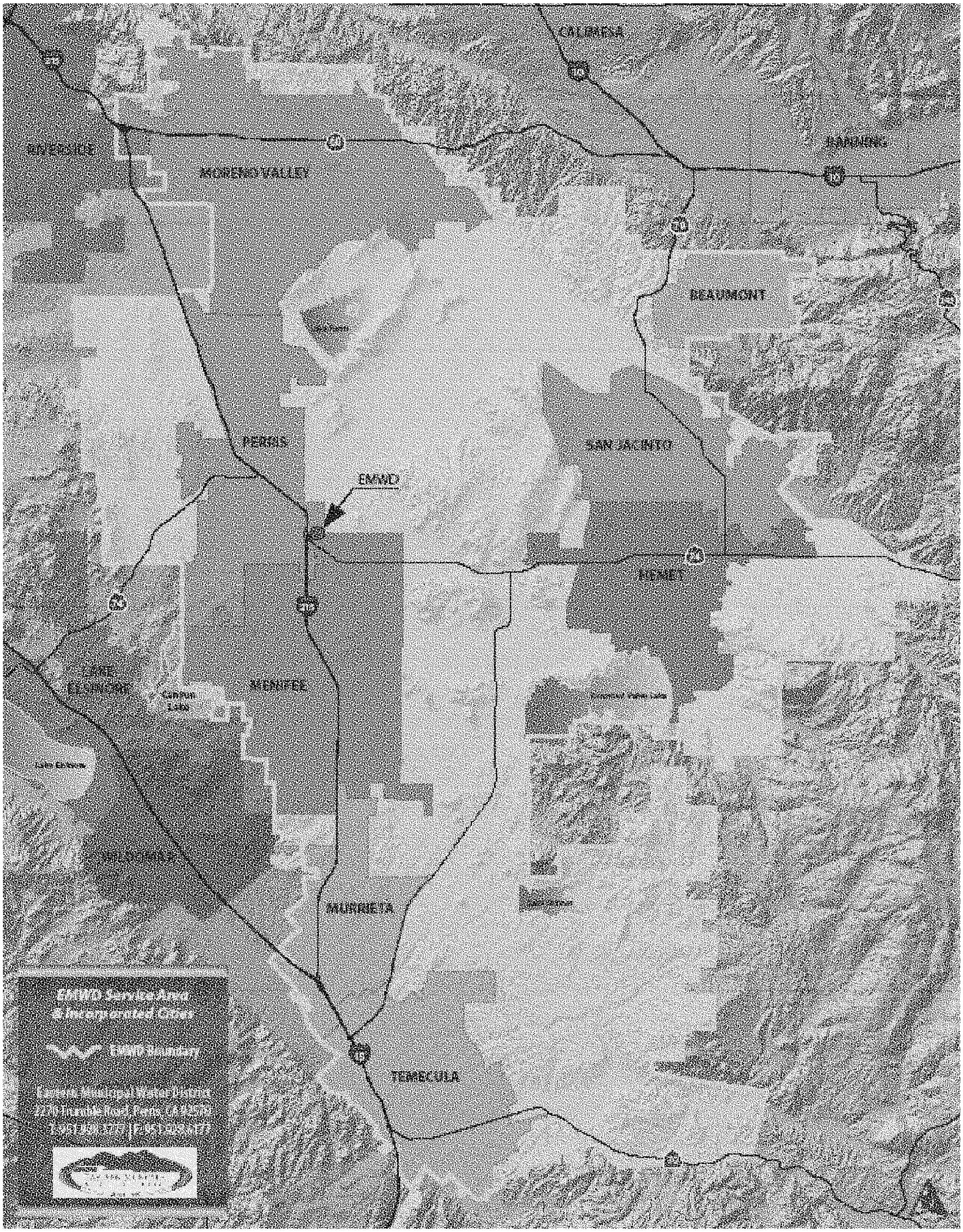
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Service Area Map and Incorporated Cities



Eastern Municipal Water District

List of Elected & Appointed Officials

June 30, 2015

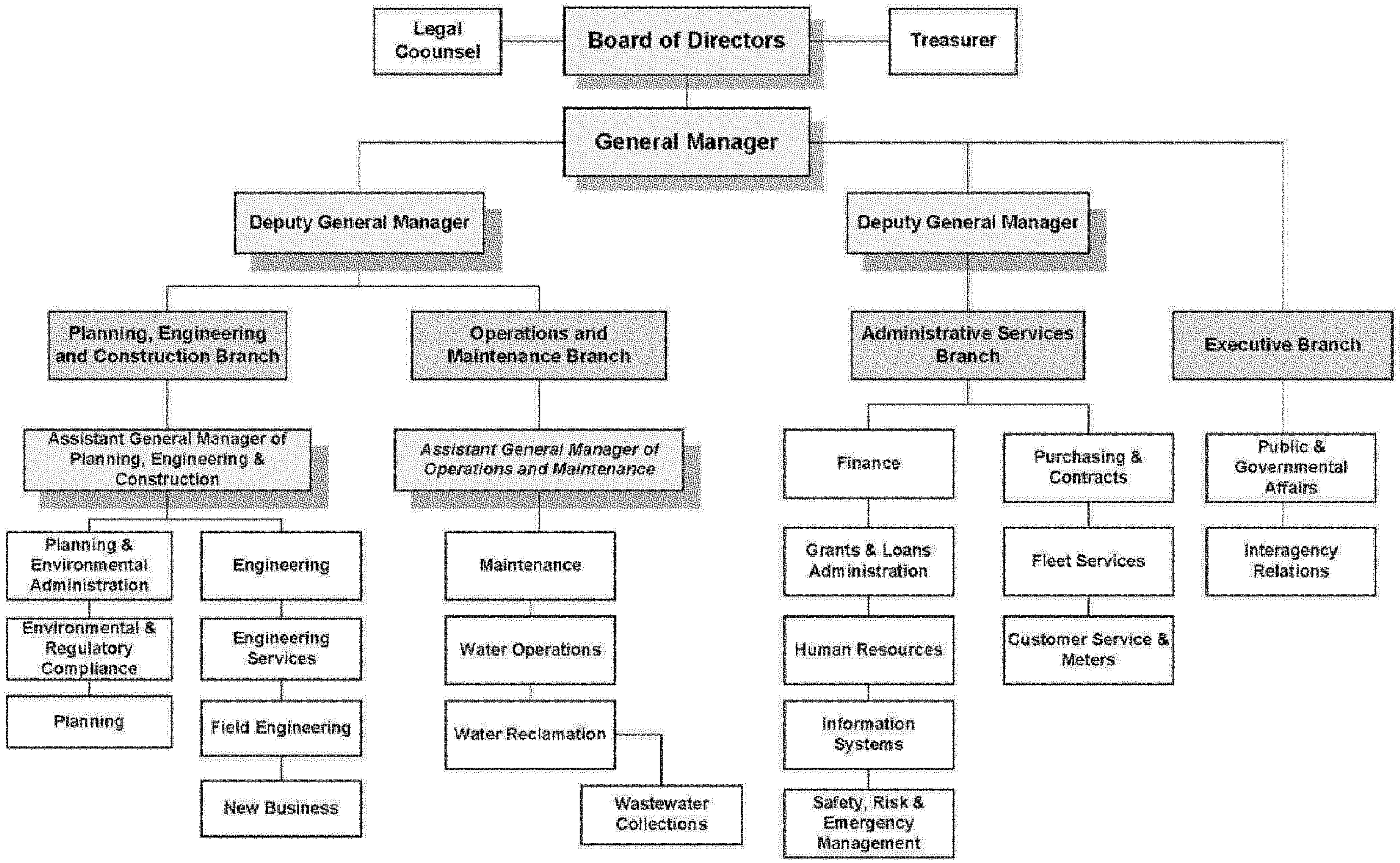
Board of Directors

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

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, Operations and Maintenance	Jeff D. Wall, P.E.
Assistant General Manager, Planning, Engineering, and Construction	Charles J. Bachmann, P.E.

Eastern Municipal Water District Organizational Chart



Temecula Wine Country Sewer

Phase 1 of the project included the installation of nearly 10 miles of sewer lines in the Wine Country area, just east of Temecula. This allows the County of Riverside to move forward with its long-term vision of turning Wine Country into a world-class destination wine region, complete with large resorts and expansions of many of the wineries in the region.

The project also improves groundwater quality in the region by removing the need for septic systems at the wineries.

FINANCIAL SECTION

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Directors
Eastern Municipal Water District
Perris, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2015, 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.

Emphasis of Matters

As described further in note 1 to the financial statements, during the year ended June 30, 2015 the entity implemented Governmental Accounting Standards Board (GASB) Statement No 68. Our opinion is not modified with respect to this matter.

Prior-Year Comparative Information

The financial statements of Eastern Municipal Water District for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated October 31, 2014 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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, 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 23, 2015 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.

Davis Farr LLP

Irvine California
November 23, 2015

Management's Discussion and Analysis

We offer readers this narrative overview and analysis of the financial statements of the Eastern Municipal Water District for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented in this section in conjunction with the accompanying financial statements and additional information furnished in our letter of transmittal.

Operations

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

Overview of the Financial Statements

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

The statement of net position presents 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.

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

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

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

Management's Discussion and Analysis

Financial Highlights

Table 1

STATEMENT OF NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 and 2014

	2015	2014	Increase/(Decrease) Amount	Increase/(Decrease) % Change
Assets				
Current assets	$ 231,991,819	$ 272,505,718	$(40,513,899)	-14.9%
Restricted assets	282,420,596	203,743,540	78,677,056	38.6%
Net capital assets	2,219,050,790	2,143,913,467	75,137,323	3.5%
Other assets	-	3,498,232	(3,498,232)	-100.0%
Total assets	2,733,463,205	2,623,660,957	109,802,248	4.2%
Total deferred outflows of resources	26,440,989	25,364,521	1,076,468	4.2%
Liabilities				
Current liabilities	81,530,465	87,630,416	(6,099,951)	-7.0%
Other liabilities	322,507,418	228,659,850	93,847,568	41.0%
Long-term debt outstanding	859,424,428	782,163,286	77,261,142	9.9%
Total liabilities	1,263,462,311	1,098,453,552	165,008,759	15.0%
Total deferred inflows of resources	18,771,015	-	18,771,015	100.0%
Net position				
Net investment in capital assets	1,370,476,337	1,300,393,466	70,082,871	5.4%
Restricted	115,037,221	115,824,667	(787,446)	-0.7%
Unrestricted	(7,842,690)	134,353,793	(142,196,483)	-105.8%
Total net position	$ 1,477,670,868	$ 1,550,571,926	$(72,901,058)	-4.7%
Ratio of liabilities to assets and deferred outflows of resources	46%	41%		

Changes in Financial Condition of the District

The ratio of liabilities to assets and deferred outflows of resources indicates the degree to which the District's assets are financed through borrowing and other obligations. This ratio increased five percent in fiscal year 2015.

In fiscal year 2015, the District's total net position increased by $30.4 million or 2.3 percent before the prior period adjustment of $103.3 million to unrestricted net position for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

The following narrative highlights the increases and decreases in assets, liabilities, deferred outflows/inflows of resources and net position between fiscal years ended June 30, 2015 and June 30, 2014, as shown in Table 1 above.

- Current assets decreased by $40.5 million or 14.9% due to decreases of $31.2 million in non-restricted cash; $6.2 million in utility receivables; and $3.1 million in grants receivable. Restricted assets increased by a net $78.7 million due to the issuance of the 2015A Revenue Refunding Bonds and 2015B Revenue Bonds, which resulted in increases of $90.5 million in construction cash, net of $11.7 million decrease in debt service cash.
- Net capital assets increased by $75.1 million or 3.5% due to $248.4 million of operating assets added to the system; added land of $4.3 million; and added equipment and general facilities of $6.4 million; these increases are offset by a decrease of $99.4 million in construction-in-progress and additional accumulated depreciation totaling $84.7 million.
- Other assets, which consisted of net pension assets, decreased by $3.5 million or 100% due to the effect of the adoption of GASB Statement No. 68, Accounting and Reporting for Pensions (see notes 1 and 15).
- Deferred outflows of resources increased $1.1 million or 4.2% as a result of increases of $8.2 million in deferred pension contributions due to the adoption of GASB Statement No. 68 and $7.0 million related to the amortization of deferred charges on debt refunding. These increases were offset by a $14.1 million decrease in the fair value of the District's two swap contracts.
- Current liabilities decreased by $6.1 million or 7% due to decreases of $8.4 million in accounts and other payables, accrued expenses, salaries and benefits and a decrease of $164 thousand in customer deposits. These decreases were offset by increases of $1.5 million in the current portion of long-term debt and $977 thousand in various other current liabilities.
- Other non-current liabilities (except for long-term debt) increased by $93.8 million or 29.1% mostly due to increases of $87.2 million in net pension liability, as a result of the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (see notes 1 and 15), and $12.7 million in construction advances relating to SRF loan programs including the Temecula Valley RWRF Expansion project. These increases were offset mostly by decreases of $5.7 million in advances from developers.
- Long-term debt outstanding increased by $78.8 million due primarily from the issuance of $74.4 million of 2015 Revenue Bonds in June 2015. The portion of long-term debt reported as current increased by $1.5 million.

- Deferred inflows of resources increased by $18.8 million mostly due to the $18.6 million increase in net pension liability as a result of implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (see notes 1 and 15).

- Total net position decreased by $72.9 million in fiscal year 2015. This decrease is primarily due to the $103.3 million adjustment to the unrestricted net position balance as a result of the adoption of GASB Statement No. 68, Accounting & Reporting for Pensions. The primary objective of this Statement is to improve accounting and financial reporting for pensions. It is a result of the GASB's comprehensive review of the effectiveness of previous standards of accounting and financial reporting with regard to providing decision useful information, accountability, and transparency. The Statement establishes standards for measuring and recognizing pension liabilities, deferred outlfows/inflows of resources, and expenses. Prior to this GASB 68 adjustment, the District's total net position increased by $30.4 million or 2.3% due to increases in the other net position categories consisting of net investment in capital assets which increased by $70.0 million; net position restricted for debt service/covenants which increased by $4.0 million; and net position restricted for construction which decreased by $4.8 million.

Table 2

CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 and 2014

	2015	2014	Increase/(Decrease)	
				%
	Amount	Amount	Amount	Change
Revenues				
Operating revenues	$ 200,808,420	$ 201,949,681	$ (1,141,261)	-0.6%
Non-operating revenues	78,102,583	83,945,016	(5,842,433)	-7.0%
Total revenues	278,911,003	285,894,697	(6,983,694)	-2.4%
Operating expenses:				
Operating expenses:	279,653,042	275,494,886	4,158,156	1.5%
Non-operating expenses:	28,110,148	26,563,390	1,546,758	5.8%
Total expenses	307,763,190	302,058,276	5,704,914	1.9%
Loss before contributions	(28,852,187)	(16,163,579)	(12,688,608)	78.5%
Capital contributions	59,211,012	48,826,308	10,384,704	21.3%
Change in net position	30,358,825	32,662,729	(2,303,904)	-7.1%
Net position at beginning of year	1,550,571,926	1,517,909,197	32,662,729	2.2%
Effect of adoption of GASB 68 (Note 15)	(103,259,883)	-	(103,259,883)	100.0%
Net position at end of year	$ 1,477,670,868	$ 1,550,571,926	$ (72,901,058)	-4.7%

Changes in Financial Performance of the District

The following narrative highlights major changes in the District's revenue and expenses between the fiscal years ended June 30, 2015 and June 30, 2014 as summarized in Table 2 above and as detailed in the Statement of Revenue, Expenses, and Changes in Net Position in the financial statements. The Revenue by Source and Expenses by Function charts in the statistical section of this report provides a detail of revenues and expenses by source and by function for the last ten fiscal years.

- Total revenues – Combined revenues including capital contributions for the fiscal year totaled $338.1 million compared to the prior fiscal year's revenue of $334.7 million. This is an increase of approximately $3.4 million or 1%. Table 2 on the previous page presents a comparison of total operating, non-operating, and capital contribution revenues for fiscal years ended June 30, 2015 and June 30, 2014.
- Total expenses – Combined expenses for fiscal year 2015 totaled $307.8 million compared to the prior year's $302.0 million. This is an increase of approximately $5.7 million or 1.9%. Table 2 on the previous page presents a comparison of operating and non-operating expenses for the two fiscal years ended June 30, 2015 and June 30, 2014.
- Water sales – Total domestic and irrigation sales decreased approximately $5.4 million or 4.4 percent compared to the previous year. This change reflects a decrease in water volumes sold due to water conservation efforts related to the drought conditions which resulted in a 10.8 percent decrease in acre-feet sales, partially offset by a 3.8 percent rate increase and additional $1.75 per month per customer Capital Fixed Charge effective January 1, 2015.
- Sewer service –Wastewater service charges increased $4.0 million or 5.4 percent over the previous year's total to end at $77.1 million. This is primarily attributed to an additional 2,460 sewer connections and a 4.5 percent rate increase effective July 1, 2014.
- Connection fees – These revenues decreased by a net $1.8 million over the prior year. Sewer connections were 2,460 compared to the prior year's 2,975, representing a decrease of 17.3 percent and water connections were 2,009 compared to the prior year's 2,156 representing a decrease of 6.8 percent.
- Interest earnings – The current fiscal year's interest earnings were $3.1 million, which was unchanged from the previous year.
- Net (decrease) increase in fair value of investments – In accordance with Governmental Accounting Standards Board Statement No. 31, the District adjusts the value of investments each fiscal year end to reflect fair value. This adjustment amount was $2.0 million less than the prior year amount due to a lower weighted average maturity and increased security diversity in the investment portfolio in 2015 than in 2014.

- Purchased water – The $4.8 million decrease in expense is primarily due to the decreased demand for water, which resulted in the purchase of 8,627 acre-feet less treated and untreated water in 2015 than in 2014.
- Depreciation and amortization – The District capitalized a net additional $254.8 million of depreciable assets over the course of the year, which resulted in the $6.8 million of additional expense.
- Net other postemployment benefits – This amount is determined by an actuarial calculation as the annual required contribution plus adjustments. It includes actual pay-as-you-go costs for benefits provided to retired employees during the year, plus an Estimate of the present value of projected benefits earned by current employees. The estimated amount relating to projected benefits increased $210 thousand. The District continues funding future costs with contributions to an irrevocable trust.
- Interest – certificates of participation/revenue bonds – The $0.97 million net decrease is primarily due to lower interest rates on variable rate debt.
- Other non-operating expenses – The $1.5 million increase is primarily due to a $1.7 million loss on disposal of capital assets that have either been replaced or retired from service before the end of their estimated useful lives.
- Capital contributions from developers – Facilities built by developers and turned over to the District to operate and maintain increased to $57.1 million compared to $44.6 million in the previous year, a change of $12.5 million. This increase mainly relates to increased processing of project closures and additional development activity in the service area.
- Capital contributions from grants – The District actively pursue grant funding and revenues which vary from year to year. Major capital grant revenues for fiscal year 2015 include federal and state of California grants totaling $553 thousand for the Enchanted Heights Sewer Infrastructures project, state grant totaling $424 thousand for the County Water of Riverside Potable Water System Improvement, federal grant of $$351 thousand for the Indirect Potable Reuse Phase I project and state grants totaling $453 thousand for the Quail Valley Sewer Improvements project.
- Net position – As previously stated, the District's total net position increased by $30.4 million or 2.0% before the prior period adjustment of $103.3 million to unrestricted net position for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (see notes 1 and 15).

Capital Assets

Net of accumulated depreciation, the District reported capital assets of $2,219.0 million in fiscal year 2015 compared to $2,143.9 million in fiscal year 2014. A comparison of this change is provided below by major category. Refer to Note 3 to the basic financial statements for further information regarding capital assets.

Capital Assets
For the Fiscal Years Ended June 30, 2015 and 2014

	2015 Amount	2014 Amount	Increase/(Decrease) Amount	Increase/(Decrease) % Change
Land	$ 50,138,199	$ 45,790,534	$ 4,347,665	9.5%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	30,074,350	29,657,807	416,543	1.4%
Water plant, lines and equipment	1,114,327,333	1,057,834,177	56,493,156	5.3%
Sewer plant, lines and equipment	1,794,063,993	1,602,575,684	191,488,309	11.9%
Equipment and general facilities	128,875,812	122,429,236	6,446,576	5.3%
Construction in progress	118,345,825	217,698,701	(99,352,876)	-45.6%
Total capital assets	3,237,576,412	3,077,737,039	159,839,373	5.2%
Less accumulated depreciation	(1,018,525,622)	(933,823,572)	(84,702,050)	9.1%
Net capital assets	$ 2,219,050,790	$ 2,143,913,467	$ 75,137,323	3.5%

Management's Discussion and Analysis

Significant additions to capital assets include $57.1 million in contributed capital from developers. Most of the contributed assets were water and sewer line additions relating to development in the area. Other additions resulted from the completion and capitalization of $219 million construction in progress.

The three largest District projects that were capitalized during the 2015 fiscal year include the Wine Country Sewer Pipeline Infrastructure Phase I ($16.1 million): Olive Avenue Regional Sewer Improvement Phase I ($7.4 million): and the Letterman Booster Pump Station and Transmission Pipeline ($7.1 million).

The Wine Country Sewer Pipeline Infrastructure Phase I project includes the design and construction of sewer pipelines to serve the Temecula Valley Wine Country area, east of Butterfield Stage Road in the unincorporated area of the County of Riverside. The project includes two lift stations, approximately 8 miles of gravity sewer and 1.5 miles of dual sewer force mains. The County of Riverside amended its General Plan land use designation to support the increased development of Temecula Valley's Wine Country as a tourist destination. The District has implemented a plan to accommodate the increased development in conjunction with the County of Riverside by designing and installing the sewer backbone network through the Temecula Valley Wine Country area. The new infrastructure will convey the increased wastewater flows to our existing collection system. This project was substantially complete as of June 30, 2015, with final work to be completed in 2015.

The Olive Avenue Regional Sewer Improvement Phase I project includes the design and construction of approximately 10,400 linear feet of 36-inch gravity sewer pipeline within Olive Avenue from La Ventana Road to Rice Road in Winchester. The new pipeline was installed in parallel with an existing gravity sewer line along Olive Avenue and portion of the existing sewer line was abandoned due to previous damage. The parallel sewer is required to accommodate gravity flows from proposed new developments within the area. This project was substantially complete as of June 30, 2015, with final work to be completed in 2015.

The Letterman Booster Pumping Station and Transmission Pipeline project includes the design and construction of a new pump station, transmission pipeline and the demolition of the existing Nason and Dracaea Booster Pump Station (BPS). The existing BPS was beyond its useful life and was located in the City of Moreno Valley (City). In addition to the booster pump station, 2,600 linear feet of transmission pipelines were installed The Letterman BPS has a firm capacity of 8,000 gpm and is expandable to 12,000 gpm to serve future demands This project was substantially complete as of June 30, 2015, with final work to be completed in 2015.

The District had $26,554,335 in construction contract commitments as of June 30, 2015. Refer to Note 10 to the financial statements for further information regarding these commitments.

Capital Expenses

During the year, additions to construction in progress totaled approximately $120.0 million. Some of the major projects currently underway and where expenses in fiscal year 2015 exceeded $2.0 million include:

		Millions
• Sixty-two water and sewer projects between $100,000 – $500,000	$	15.2
• San Jacinto Valley RWRF Expansion to 14 MGD		15.0
• Nine water and sewer projects between $1,000,000 – $2,000,000		12.6
• Wine Country Sewer Infrastructure Project		10.0
• Twelve water and sewer projects between $500,000 – $1,000,000		8.3
• Temecula Old Town Sewer Improvements		7.5
• Solar Photovoltaic Renewable Energy Initiative Phase II		7.1
• Olive Avenue Regional Sewer Improvements Phase I		6.8
• San Jacinto Land Acquisition Study		4.4
• Letterman Booster Pump Station & Transmission Pipeline		4.4
• Solar Photovoltaic Renewable Energy Initiative Phase I		4.3
• Remaining water and sewer projects with expenses less than $100,000		4.3
• Watson Road and Longview Lane Pipelines Project		3.7
• Acquisition of 39.2 Acre Property (potential recharge site) N/W of Esplanade Avenue & Mountain Avenue		3.6
• Longview 5.6 MG Tank		3.6
• Daily II Tank and Transmission Pipleline		3.6
• Salt Creek Regional Sewer Improvements		2.9
• Watson Road Booster Pump Station		2.7
	$	120.0

Noncurrent Liabilities

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

The District had a total of $1,181.9 million of outstanding debt and other noncurrent liabilities at June 30, 2015, a net increase of $171.1 million or 16.9 percent from the prior year. Total debt increased $78.8 million to $880.7 million due to the issuance of the 2015B Revenue Bonds and the construction advances for the Temecula Valley RWRF converting to an SRF loan. The amount of debt and amortizations due within one year total $21.3 million. To reduce debt service costs, the District refunded the 2008A, 2008D and 2008G COPs with the 2014C, 2014B and 2015A Refunding Revenue Bonds, respectively.

Other noncurrent liabilities increased $94.5 million, mainly due to the increase in net pension obligation of $87.2 million as a result of the adoption of GASB Statement No. 68, and a net increase in SRF construction advances of $12.7 million. These increases were offset by a $5.3 million decrease in advances from developers.

The District's parity COP and Revenue Bond debt has been assigned an AA+, Aa2 and AA rating and the subordinate Refunding Revenue Bonds and 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 this report or need additional financial information, please contact the District's Finance Department.

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EMWD Demonstration Garden

The revitalization of EMWD's Demonstration Garden was completed in Fall 2014 and has served as an excellent example of a visually appealing, diverse, and sustainable landscape which can be easily maintained, even during exceptional drought conditions.

Garden tours are provided by staff upon request as well as during scheduled water use efficiency workshops and special events.

BASIC FINANCIAL STATEMENTS

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015
(with prior year data for comparison purposes only)

	June 30	
	2015	2014
Assets:		
Current assets:		
Cash and investments	$ 180,865,999	$ 212,038,291
Utility accounts receivable, net of allowances	23,346,319	29,580,997
Property taxes receivable	12,072,798	12,170,806
Accrued interest receivable	1,002,052	939,445
Other receivables	4,948,563	5,143,395
Prepaid expenses	3,187,899	3,001,662
Net pension assets	–	530,948
Materials and supplies inventory	3,264,481	3,136,749
Water Inventory	2,532,821	2,091,314
Grants receivable	770,887	3,872,111
Total current assets	231,991,819	272,505,718
Noncurrent assets:		
Restricted assets:		
Debt service/covenants cash and investments	101,974,320	113,649,543
Property taxes receivable	1,284,134	1,539,415
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	165,982,447	75,527,588
Notes receivable	180,917	28,216
Total restricted assets	282,420,596	203,743,540
Capital assets:		
Land	50,138,199	45,790,534
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	2,938,465,676	2,690,067,668
Equipment and general facilities	128,875,812	122,429,236
Construction in progress	118,345,825	217,698,701
Total capital assets	3,237,576,412	3,077,737,039
Less accumulated depreciation	(1,018,525,622)	(933,823,572)
Total net capital assets	2,219,050,790	2,143,913,467
Other assets:		
Net pension assets	–	3,498,232
Total noncurrent assets	2,501,471,386	2,351,155,239
Total assets	2,733,463,205	2,623,660,957
Deferred outflows of resources		
Accumulated decrease in fair value of swap contracts	–	14,120,430
Deferred outflows – pension contributions	8,160,464	–
Deferred charges on debt refundings	18,280,525	11,244,091
Total deferred outflows of resources	26,440,989	25,364,521

See accompanying notes to these financial statements

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015
(with prior year data for comparison purposes only)

	June 30 2015	June 30 2014
Liabilities:		
Current liabilities:		
Accounts payable	$ 25,451,048	$ 35,501,392
Accrued salaries and benefits	3,376,404	2,935,094
Customer deposits	8,011,610	8,175,756
Compensated absences	7,690,507	7,625,285
Accrued interest	8,582,690	8,313,409
Other payables	3,276,890	2,231,100
Advances for construction, notes and assessments	6,434,899	3,958,096
Revenue bonds	9,336,283	8,493,590
Certificates of participation	4,528,785	4,753,784
General obligation bonds	975,393	2,550,504
Advances from developers	1,570,498	1,103,429
Capital lease payable	14,458	13,498
Unearned revenue	175,800	–
Other accrued expenses	2,105,200	1,975,479
Total current liabilities	81,530,465	87,630,416
Noncurrent liabilities:		
Compensated absences	6,320,819	5,785,451
Advances for construction, notes and assessments	112,917,460	101,237,573
Revenue bonds	411,071,428	190,031,537
Certificates of participation	300,487,521	454,956,306
General obligation bonds	34,920,903	35,896,296
State revolving fund construction advances	140,525,331	127,822,117
Advances from developers	16,889,638	22,616,585
Capital lease payable	27,116	41,574
Other accrued expenses	5,617,870	5,976,231
Net other postemployment benefits obligation	51,927,505	52,339,036
Net pension liability	87,209,140	–
Fair value of swap contracts	14,017,115	14,120,430
Total noncurrent liabilities	1,181,931,846	1,010,823,136
Total liabilities	1,263,462,311	1,098,453,552
Deferred inflows of resources		
Accumulated decrease in fair value of swap contracts	189,319	–
Deferred inflows actuarial	18,581,696	–
Total deferred inflows of resources	18,771,015	–
Net position:		
Net investment in capital assets	1,370,476,337	1,300,393,466
Restricted for debt service/covenants	74,689,785	70,625,613
Restricted for construction	40,347,436	45,199,054
Unrestricted	(7,842,690)	134,353,793
Total net position	$ 1,477,670,868	$ 1,550,571,926

See accompanying notes to these financial statements

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(with prior year data for comparison purposes only)

	June 30	
	2015	2014
Operating revenues:		
Water sales - domestic	$ 113,859,511	$ 118,695,153
Water sales - irrigation	3,435,641	4,029,022
Sewer service charge	77,120,505	73,100,086
Recycled water sales	6,392,763	6,125,420
Total operating revenues	200,808,420	201,949,681
Operating expenses:		
Purchased water	59,040,009	63,850,688
Water operations	45,691,510	44,193,507
Sewer operations	42,743,947	42,710,741
Recycled water operations	6,101,759	5,992,372
General and administrative	28,677,026	28,352,049
Depreciation and amortization	88,830,791	82,037,529
Net other postemployment benefits	8,568,000	8,358,000
Total operating expenses	279,653,042	275,494,886
Loss from operations	(78,844,622)	(73,545,205)
Non-operating revenues (expenses):		
Property taxes - general levy	30,843,713	28,061,489
Property taxes - general bond levy	3,256,867	4,517,348
Availability (standby) assessments	5,735,466	5,700,591
Water and sewer connection fees	28,307,625	30,149,861
Interest - operations and restricted funds	3,092,643	3,133,313
Net increase (decrease) in fair value of investments	(226,469)	1,746,290
Net increase (decrease) upon hedge termination	(5,504,869)	-
Interest - general obligation bond funds	45,068	43,980
Grant revenues	1,717,926	969,474
Other revenues	10,834,613	9,568,311
Gain/(loss) on disposal of capital assets	(1,734,798)	54,359
Interest - certificates of participation/revenue bonds	(14,861,357)	(14,783,498)
Interest - general obligation bonds	(1,792,037)	(1,839,045)
Interest - other	(1,451,147)	(1,265,303)
General obligation bond service fees	(49,317)	(57,289)
Other expenses	(8,221,492)	(8,618,255)
Total non-operating revenues	49,992,435	57,381,626
Loss before contributions	(28,852,187)	(16,163,579)
Capital contributions		
Developer contributions	57,086,793	44,581,002
Capital grants	2,112,456	4,245,306
Other capital contributions	11,763	-
Total capital contributions	59,211,012	48,826,308
Change in net position	30,358,825	32,662,729
Total net position at beginning of year	1,550,571,926	1,517,909,197
Effect of adoption of GASB 68 (Note 15)	(103,259,883)	-
Total net position at end of year	$ 1,477,670,868	$ 1,550,571,926

See accompanying notes to these financial statements

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(with prior year data for comparison purposes only)

	June 30	
	2015	2014
Cash flows from operating activities		
Receipts from customers	$ 208,502,289	$205,544,639
Receipts from availability (standby) assessments	5,974,527	5,860,100
Other receipts	11,010,413	9,568,311
Payments for water	(59,507,971)	(63,684,669)
Payments to employee for services	(82,038,728)	(77,260,806)
Payments to suppliers for goods and services	(53,861,384)	(40,404,765)
Payments for energy and utilities	(16,169,325)	(15,766,823)
Net cash (used for) provided by operating activities	13,909,821	23,855,987
Cash flows from noncapital financing activities		
Proceeds from property taxes, general levy	30,702,597	27,851,864
Proceeds from operating grants	2,131,438	2,228,554
Net cash (used for) provided by noncapital financing	32,834,035	30,080,418
Cash flows from capital and related financing activities		
Acquisitions and construction of capital assets	(103,414,173)	(94,949,161)
Proceeds from sale of capital assets	550,776	117,949
Proceeds from long-term debt issuance	230,376,166	48,645,000
Proceeds from SRF construction advances	27,374,469	26,409,638
Repayment of notes, bonds and certificates of participations	(168,661,594)	(75,281,718)
Interest paid	(19,614,425)	(21,373,159)
Proceeds from property taxes, GO bond levy	3,512,148	4,455,006
Proceeds from water and sewer connection fees	28,307,625	30,149,861
Proceeds from developer advances	6,961,362	11,397,314
Repayments of developer advances	(12,221,240)	(8,673,440)
Proceeds from capital grants	4,843,739	4,894,234
Net cash (used for) capital and related financing activities	(1,985,147)	(74,208,476)
Cash flows from investing activities		
Purchases of investments	(50,278,142)	(147,716,006)
Proceeds from sales and maturities of investments	69,665,325	47,234,313
Proceeds from earnings on investments	3,075,104	2,647,355
Net cash provided by investing activities	22,462,287	(97,834,338)
Total (decrease) increase in cash and cash equivalents	67,220,996	(118,106,409)
Cash and cash equivalents at beginning of year	157,274,781	275,381,190
Cash and cash equivalents at end of year	$ 224,495,777	$ 157,274,781

See accompanying notes to these financial statements

EASTERN MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(with prior year data for comparison purposes only)

	June 30	
	2015	2014
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	$ (78,844,622)	$ (73,545,205)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	88,830,791	82,037,529
Other revenues	8,574,068	7,181,605
(Increase) decrease in utility accounts receivable	6,234,678	(1,366,869)
(Increase) decrease in other receivables	390,385	2,282,824
(Increase) decrease in prepaid expenses	(186,237)	198,987
(Increase) decrease in materials and supplies inventory	(127,732)	(15,412)
(Increase) decrease in water inventory	(441,507)	188,369
(Increase) decrease in notes receivable	(152,701)	40,902
(Increase) decrease in accounts payable	(10,050,344)	1,326,665
(Increase) decrease in accrued expenses	1,258,460	1,753,749
(Increase) decrease in customer deposits	(164,146)	890,162
(Increase) decrease in settlement payable	-	(2,499)
(Increase) decrease in compensated absences	600,590	758,315
(Increase) decrease in net other postemployment benefits obligation	(411,531)	2,126,865
(Increase) decrease in net pension liability	(12,021,563)	-
(Increase) decrease in deferred inflows	18,581,696	-
(Increase) decrease in deferred outflows	(8,160,464)	-
Net cash (used for) provided by operating activities	$ 13,909,821	$ 23,855,987
Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	180,865,999	$ 212,038,291
Restricted cash and investments:		
Debt service/covenants	101,974,320	113,649,543
Construction	165,982,447	75,527,588
Total cash and investments	448,822,766	401,215,422
Less investments	224,326,989	243,940,641
Cash and cash equivalents	$ 224,495,777	$ 157,274,781
Noncash capital, financing, and investing activities		
Capital asset contributions from developers	$ 57,086,793	$ 44,581,002
Net increase (decrease) in fair value of investments	(226,469)	1,746,290
Termination of interest rate swap hedge effectiveness	(5,504,869)	-
Amortization of bond premiums, discounts, and loss on debt refunding	579,335	234,098

See accompanying notes to these financial statements

EASTERN WATER MUNICIPAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 and 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 Authority. The Facilities Corporation and the Financing Authority 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.

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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.

Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting for pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 30, 2014. The District implemented this Statement in the fiscal year ending June 30, 2015.

In 2014, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District implemented this Statement in the fiscal year ending June 30, 2015.

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. It is not practical to restate the 2014 column for the impact of these standards. The result of the implementation of these standards decreased the net position at July 1, 2014 by $103,259,883.

Cash and Investments

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

Cash Equivalents

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

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Classification of Revenues and Expenses

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

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

Capital Assets

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

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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

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

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

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to $609,075 at June 30, 2015.

Inventories

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

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Restricted Assets

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

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

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

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on 30-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to $8,725,958 at June 30, 2015.

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Property Taxes

Property tax in California is levied in accordance with Article XIIIA 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 have been levied.

The property tax calendar is as follows:

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

Debt Discounts, Premiums, and Deferred Amounts on Refunding

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

Compensated Absences

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

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

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.

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, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014

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 two items that qualify for reporting in this category: the deferred outflows on pension contributions 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 two items that qualify for reporting in this category, the accumulated decrease in fair value of swap contracts and the deferred inflow – actuarial. These are reported on the Statement of Net Position.

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.

NOTE 1 Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. Certain amounts in the fiscal year 2014 Statement of Cash Flows have been reclassified to conform to the fiscal year 2015 presentation and adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Such reclassifications had no effect on the previously reported change in net position. The effect of adoption of GASB Statement No. 68 to the District's net position is reported in fiscal year 2015 Statement of Revenue, Expenses, and Changes in Net Position (see Note Disclosure 1).

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, 2015, all potential hedging instruments of the District are considered effective hedges.

NOTE 2 Cash and Investments

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

	2015	2014
Current assets	$ 180,865,999	$ 212,038,291
Restricted assets:		
Debt service/covenants	101,974,320	113,649,543
Construction	165,982,447	75,527,588
Totals	$ 448,822,766	$ 401,215,422

Cash and investments consisted of the following:

	2015	2014
Cash on hand	$ 4,900	$ 4,900
Deposits with financial institutions	4,537,008	8,673,875
Investments	444,280,858	392,536,647
Total cash and investments	$ 448,822,766	$ 401,215,422

Cash and cash equivalents consisted of the following:

	2015	2014
Demand accounts and on hand	$ 4,541,908	$ 8,678,775
Local Agency Investment Fund (LAIF)	138,853,543	58,797,449
Investment Trust of California (CalTRUST)	41,032,598	50,832,179
Money market mutual funds	40,067,728	38,966,378
Total cash and cash equivalents	$ 224,495,777	$ 157,274,781

NOTE 2 Cash and Investments (cont'd)

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

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

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

* Based upon State law or investment policy requirements, whichever is more restrictive.
1. Only permitted for use in the District's sweep account.
2. Maturities may exceed 5 years with specific required credit ratings.
3. Investments in the District's own tendered securities may exceed percentages on a temporary basis.

NOTE 2 Cash and Investments (cont'd)

Investments Authorized by Debt Agreements

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

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

Interest Rate Risk

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

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

NOTE 2 Cash and Investments (cont'd)

Interest Rate Risk (continued)

Investment Type	Total Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
U.S. agency securities:					
Federal Farm Credit Bank (FFCB)	$ 4,991,300	$ –	$ –	$4,991,300	$ –
Federal Home Loan Bank (FHLB)	24,863,800	–	–	24,863,800	–
Federal Home Loan Mortgage Corp. (FHLMC)	19,910,850	–	–	19,910,850	–
Federal National Mortgage Assn. (FNMA)	62,458,300	22,573,800	–	39,884,500	–
Corporate - Fixed	42,732,322	15,106,150	10,321,313	17,304,859	–
Corporate - Floating	14,040,460	5,002,360	–	9,038,100	–
Municipal	45,240,551	16,098,063	2,244,562	26,897,926	–
LAIF	50,018,799	50,018,799	–	–	–
Investment Trust of California (CalTRUST)	41,032,598	–	41,032,598	–	–
Money market mutual funds	3,059,545	3,059,545	–	–	–
Held by trustee:					
LAIF	88,834,744	88,834,744	–	–	–
Municipal	6,956,752	–		6,956,752	
Money market mutual funds	37,008,183	37,008,183	–	–	–
Guaranteed investment contracts (GICs)*	3,132,654	–	–	–	3,132,654
Total investments	$444,280,858	$ 237,701,644	$53,598,473	$149,848,087	$ 3,132,654

* The District's GIC is with AIG Matched Funding Corporation (AIG). The contract required AIG to deposit securities as collateral with Wells Fargo Bank Minnesota, NA at a value of at least 105% of the investment balance. The termination of the investment contract and release of collateral would occur in the event of default by AIG. As of June 30, 2015, AIG was not in default and the value of the investment exceeded 105% of the investment balance.

Investments with Fair Value Highly Sensitive to Interest Rate Risk

Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk as specified by the GASB No.40. As of June 30, 2015 the District had $14,040,460 invested in corporate floating notes.

NOTE 2 Cash and Investments (cont'd)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table below shows the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual Standard & Poor's Rating Services credit rating as of year-end for each investment type.

Investment Type	Total Amount	Min. Legal Rating	Rating at End of Year AAA	AA	A	Unrated
U.S. agency securities:						
FFCB	$ 4,991,300	N/A	$ -	$ 4,991,300	$ -	$ -
FHLB	24,863,800	N/A	-	24,863,800	-	-
FHLMC	19,910,850	N/A	-	19,910,850	-	-
FNMA	62,458,300	N/A	-	62,458,300	-	-
Corporate - Fixed	42,732,322	A	5,226,060	19,028,810	18,477,452	-
Corporate - Floating	14,040,460	A	-	11,038,600	3,001,860	-
Municipal	45,240,551	N/A	4,009,920	26,835,896	14,394,735	-
LAIF	50,018,799	N/A	-	-	-	50,018,799
CalTRUST	41,032,598	N/A	-	-	-	41,032,598
Money market mutual funds	3,059,545	AAA*	3,059,545	-	-	-
Held by trustee:						
LAIF	88,834,744	N/A	-	-	-	88,834,744
Municipal	6,956,752	N/A	-	-	6,956,752	-
Money market mutual funds	37,008,183	N/A	37,008,183	-	-	-
Guaranteed investment contracts	3,132,654	N/A	-	-	-	3,132,654
Total investments	$ 444,280,858		$49,303,708	$ 169,127,556	$42,830,799	$ 183,018,795

* Money market mutual funds are rated AAAm by S&P and Aaa-mf by Moodys at June 30, 2015. 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, 2015.

Issuer	Investment Type	Reported Amount
FNMA	U.S. agency securities	$ 62,458,300
State of California	CA local agency securities	32,351,902
FHLB	U.S. agency securities	24,863,800

NOTE 2 Cash and Investments (cont'd)

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, 2015, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

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

Investment in Investment Trust of California (CalTRUST)

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

NOTE 3 Capital Assets

The capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance June 30, 2014	Additions	Reductions	Ending Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 45,790,534	$ 4,347,665	$ -	$ 50,138,199
Tunnel Water Seepage Agreement	1,750,900	-	-	1,750,900
Construction in progress	217,698,701	120,017,915	(219,370,791)	118,345,825
Total capital assets, not being depreciated:	265,240,135	124,365,580	(219,370,791)	170,234,924
Capital assets, being depreciated:				
Water plant, lines and equipment	1,057,834,177	58,380,372	(1,887,216)	1,114,327,333
Water capacity rights	29,657,807	416,543	-	30,074,350
Sewer plant, lines and equipment	1,602,575,684	193,657,806	(2,169,497)	1,794,063,993
Equipment and general facilities	122,429,236	8,804,178	(2,357,602)	128,875,812
Total capital assets, being depreciated:	2,812,496,904	261,258,899	(6,414,315)	3,067,341,488
Less accumulated depreciation for:				
Water plant, lines and equipment	358,709,793	37,721,280	(754,633)	395,676,440
Water capacity rights	7,259,428	803,436	-	8,062,864
Sewer plant, lines and equipment	479,965,186	44,022,895	(1,044,324)	522,943,757
Equipment and general facilities	87,889,165	6,283,180	(2,329,784)	91,842,561
Total accumulated depreciation	933,823,572	88,830,791	(4,128,741)	1,018,525,622
Total capital assets, being depreciated, net:	1,878,673,332	172,428,108	(2,285,574)	2,048,815,866
Capital assets, net:	$ 2,143,913,467	$ 296,793,688	$ (221,656,365)	$ 2,219,050,790

The net interest cost capitalized during fiscal year ended June 30, 2015 was $5,752,723.

Depreciation expense was charged as follows:

Water	$ 30,009,038
Sewer	45,165,246
Recycled	6,022,785
General/Administrative	7,633,722
Total	$ 88,830,791

NOTE 4 Noncurrent Liabilities

A summary of long-term debt and other non-current liabilities is as follows:

	Ending Balance 30-Jun-14	Additions	Reductions	Ending Balance 30-Jun-15	Due Within One Year
Long-term Debt					
Advances for construction, notes and assessments:					
CA DWR Prop 82	$ 1,633,527	$ –	$ (161,982)	$ 1,471,545	$ 166,469
CA DWR Prop 204	1,035,106	–	(102,642)	932,464	105,485
CA DWR Prop 204 (HWFP)	25,878,182	–	(1,525,408)	24,352,774	1,560,272
San Jacinto Z LLC	50,575	–	(50,575)	–	–
SWRCB SRF loan (APAD)	41,797,464	–	(2,117,489)	39,679,975	2,126,424
SWRCB SRF loan (SCATT)	34,800,815	–	–	34,800,815	1,774,217
SWRCB SRF loan (TVRWRF)	–	18,114,786	–	18,114,786	702,032
Total notes payable	105,195,669	18,114,786	(3,958,096)	119,352,359	6,434,899
Capital Lease Obligations	55,072	–	(13,498)	41,574	14,458
Revenue bonds:					
2011A refunding	41,830,000	–	(7,665,000)	34,165,000	8,015,000
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	–	54,765,000	–	54,765,000	305,000
2015A refunding	–	50,000,000	–	50,000,000	–
2015B	–	74,430,000	–	74,430,000	–
Unamortized premium	3,475,127	6,006,174	(828,590)	8,652,711	1,016,283
Total revenue bonds	198,525,127	230,376,174	(8,493,590)	420,407,711	9,336,283
Certificates of participation:					
2006A	98,610,000	–	(4,180,000)	94,430,000	4,250,000
2007A refunding	20,315,000	–	(90,000)	20,225,000	90,000
2008A refunding	55,060,000	–	(55,060,000)	–	–
2008C refunding	47,545,000	–	–	47,545,000	–
2008D refunding	45,175,000	–	(45,175,000)	–	–
2008G refunding	50,000,000	–	(50,000,000)	–	–
2008H	140,035,000	–	–	140,035,000	–
Net unamort prem/disc	2,970,090	–	(188,784)	2,781,306	188,785
Total COPs	459,710,090	–	(154,693,784)	305,016,306	4,528,785
General obligation bonds:					
2005	13,450,000	–	(580,000)	12,870,000	480,000
2009	24,565,000	–	(1,940,000)	22,625,000	475,000
Net unamort prem/disc	431,800	–	(30,504)	401,296	20,393
Total GO bonds	38,446,800	–	(2,550,504)	35,896,296	975,393
Sub-total long term debt	801,932,758	248,490,960	(169,709,472)	880,714,246	21,289,818
Other Noncurrent Liabilities					
Compensated absences	13,410,736	8,042,246	(7,441,656)	14,011,326	7,690,507
Total noncurrent liabilities	$ 815,343,494	$ 256,533,206	$ (177,151,128)	$ 894,725,572	$ 28,980,325

NOTE 4 Noncurrent Liabilities (cont'd)

Future principal and interest requirements on all long-term debt are as follows:

Year ending June 30:	Principal	Interest	Total
2016	$ 20,064,357	$ 19,273,388	$ 39,337,745
2017	20,922,783	20,198,386	41,121,169
2018	17,060,118	19,574,609	36,634,727
2019	17,596,158	19,017,650	36,613,808
2020	18,168,657	18,415,410	36,584,067
2021-2025	109,509,015	81,522,124	191,031,139
2026-2030	146,228,488	64,762,410	210,990,898
2031-2035	161,824,357	43,566,024	205,390,381
2036-2040	159,775,000	19,651,270	179,426,270
2041-2045	130,805,000	36,539,143	167,344,143
2046-2048	66,925,000	1,104,369	68,029,369
Sub-total	868,878,933	343,624,783	1,212,503,716
Add: Unamortized premium	11,835,313	–	11,835,313
Total	$ 880,714,246	$ 343,624,783	$ 1,224,339,029

Advances for Construction, Notes and Assessments

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

Year ending June 30:	Principal	Interest	Total
2016	$ 6,434,899	$ 1,596,648	$ 8,031,547
2017	6,523,450	1,508,097	8,031,547
2018	6,613,354	1,418,193	8,031,547
2019	6,705,137	1,326,410	8,031,547
2020	6,798,657	1,232,890	8,031,547
2021-2025	34,774,015	4,708,692	39,482,707
2026-2030	33,003,488	2,309,306	35,312,794
2031-2035	18,499,359	614,018	19,113,377
Total	$ 119,352,359	$ 14,714,254	$ 134,066,613

NOTE 4 Noncurrent Liabilities (cont'd)

Water Conservation Bond Law of 1988 (Proposition 82)

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

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

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

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

The total loan amount to the District for the Hemet Water Filtration Plant is $42,098,388 repayable in semiannual payments of approximately $1,052,460 including principal and imputed interest. The loan contract required that the District make certain payments to the State in order to receive loan advances. The District's recorded liability for this obligation has been presented net of these required payments, which totaled $8,419,718. The loan contract carries no stated interest rate, however interest has been imputed at approximately 2.273 percent with calculated amounts ranging from $11,825 to $544,647. Semiannual payments began January 1, 2009 with the final payment scheduled for July 1, 2028.

San Jacinto Z LLC Agreement

The Board approved a settlement agreement with San Jacinto Z LLC (SJZ) on November 16, 2011. The agreement provides for the District to pay $1,000,000 to SJZ, to be amortized in semi-annual payments over 3 years at an interest rate of 0.92 percent. Payments are due by June 1 and December 1 each year until paid in full. In December 2012, the District executed an additional settlement agreement, which included a loan prepayment of $442,500. Final payment was made on November 10, 2014.

NOTE 4 Noncurrent Liabilities (cont'd)

Clean Water State Revolving Fund (SRF)

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

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

On August 19, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the Temecula Valley RWRF 18 MGD Reliable Capacity Upgrade project. This project consists of increasing tertiary treatment to comply with reliability standards, effectively attaining the 18 MGD permitted capacity and replacing portions of existing facilities and equipment to improve operational efficiencies. Construction for this project was completed in June 2015. The total loan amount to the District is $18,114,786 repayable in annual payments of approximately $1,173,016 including principal and interest beginning December 30, 2015 with the final payment scheduled for December 30, 2034.

Clean Water State Revolving Fund (SRF) Construction Advances

On March 23, 2011, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for planning, design and construction costs relating to the San Jacinto Valley RWRF Title 22 Tertiary Treatment Upgrade and Plant 2 Facilities project. This project consists of modifying and constructing new facilities to increase reliable capacity from 7.5 to 14.0 MGD with improved efficiency and better effluent quality. The agreement provides $145,000,000 in funding with a future 20-year loan at an interest rate of 2.7 percent. Loan repayment is expected to begin in November 2016. Construction advances and capitalized interest totaling $140,525,331 for this project were recorded through June 30, 2015.

NOTE 4 Noncurrent Liabilities (cont'd)

On May 9 2012, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing under the Clean Water State Revolving Fund. This financing agreement is for construction costs relating to the Enchanted Heights Sewer System project. This project consists of connecting individual residences to a new collection system, including house laterals, and abandoning existing septic tanks. The agreement provides $5,000,000 in "contingent principal forgiveness" loan funding. The District will be required to repay the principal only if it does not satisfy the conditions for the agreement. The District expects to comply with the terms of the agreement and does not anticipate having to repay the $5,000,000. Therefore, in accordance with generally accepted accounting principles, funding amounts received during the fiscal year and reimbursable amounts expensed but not claimed as of June 30, 2015 were accounted for as grant revenues and receivables in the financial statements.

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

Revenue Bonds

Future principal and interest payments on all revenue bonds as of June 30, 2015 are as follows:

Year ending June 30:	Principal	Interest	Total
2016	$ 8,320,000	$ 3,438,666	$ 11,758,666
2017	8,730,000	4,714,320	13,444,320
2018	4,475,000	4,462,865	8,937,865
2019	4,645,000	4,272,050	8,917,050
2020	4,870,000	4,051,008	8,921,008
2021-2025	16,755,000	18,617,928	35,372,928
2026-2030	57,785,000	18,391,202	76,176,202
2031-2035	32,555,000	18,218,287	50,773,287
2036-2040	118,205,000	17,822,865	136,027,865
2041-2045	101,670,000	10,933,454	112,603,454
2046-2048	53,745,000	1,098,403	54,843,403
Sub-total	411,755,000	106,021,048	517,776,048
Add: Unamortized premium	8,652,711	-	8,652,711
Total	$ 420,407,711	$ 106,021,048	$ 526,428,759

NOTE 4 Noncurrent Liabilities (cont'd)

2011A Refunding Revenue Bonds

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

Prepaid Certificates	Principal Prepaid/Retired	Use of Proceeds
2001A Refunding Certificates	$ 40,175,000	Deposited in 1991A Escrow Fund
2001C Refunding Certificates	3,470,000	Deposited in 1993A Escrow Fund
2008D Refunding Certificates	8,180,000	Retired COPs maturing 2012-2016
2008E Refunding Certificates	10,005,000	Retired COPs maturing 2012-2016

The 2001A and 2001C Refunding Certificates are considered defeased and the liabilities for these certificates have been removed from the Statement of Net Position.

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

2012A Refunding Revenue Bonds

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

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

The 2012A Bonds include principal installments due in varying amounts from $16,000,000 to $17,290,000 annually from July 1, 2036 to July 1, 2038, with interest payable monthly at an interest rate level initially set equivalent to a Securities Industry and Financial Market Association (SIFMA)-indexed rate plus 0.04 percent. The interest rate on the 2012A Bonds resets each time the Bonds are remarketed, which is no less frequently than every 13 months. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.09 percent. The average annual interest rate experienced in fiscal year 2015 was 0.06 percent and the actual interest paid was $30,183.

NOTE 4 Noncurrent Liabilities (cont'd)

Revenue Bonds (continued)

2013A Refunding Revenue Bonds

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

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

The 2013A Bonds include principal installments due in varying amounts from $3,805,000 to $5,370,000 annually from July 1, 2024 to July 1, 2035, with interest payable monthly at an interest rate level equivalent to a SIFMA-indexed rate plus 0.04 percent. The interest rate on the 2013A Bonds resets each time the 2013A Bonds are remarketed, which is generally every 90 – 270 days. In February 2015, the interest rate on the 2013A Bonds was reset at the SIFMA rate plus 0.04 percent. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.09 percent. The average annual interest rate experienced in fiscal year 2015 was 0.07 percent and the actual interest paid was $40,266.

2014A Refunding Revenue Bonds

In June 2014, the District issued $48,645,000 in Refunding Revenue Bonds, Series 2014A. The net proceeds were used to pay the costs of executing and delivering the 2014A Bonds, and advance refund the 2008E Refunding Certificates of Participation. The 2014A Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, provides for lower debt service from 2017 through 2033, and releases $4.5 million in reserves for use to fund capital projects, and is supported by a new standby liquidity agreement at a reduced cost.

The proceeds of the 2014A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008E Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position.

NOTE 4 Noncurrent Liabilities (cont'd)

The 2014A Bonds include principal installments due in varying amounts from $5,350,000 to $6,860,000 annually from July 1, 2040 to July 1, 2047, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.02 percent. The average annual interest rate experienced in fiscal year 2015 was 0.03 percent and the actual interest paid was $17,166.

2014B Refunding Revenue Bonds

In October 2014, the District issued $45,175,000 in Refunding Revenue Bonds, Series 2014B. The net proceeds were used to pay the costs of executing and delivering the 2014B Bonds, and advance refund the 2008D Refunding Certificates of Participation. The 2014B Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, provides for lower debt service from 2017 through 2023, and releases $5.5 million in reserves for use to fund capital projects.

The proceeds of the 2014B Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008D Refunding Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The transactions reduced annual debt service payment by $2.7 to $11.8 million from 2018 through 2024 and resulted in no economic loss other than the cost to underwrite. The reacquisition price equaled the net carrying amount of the old debt.

The 2014B Bonds include principal installments due in varying amounts from $4,995,000 to $6,355,000 annually from July 1, 2040 to July 1, 2047, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.03 percent. The average annual interest rate experienced in fiscal year 2015 was 0.03 percent and the actual interest paid was $15,765.

2014C Refunding Revenue Bonds

In October 2014, the District issued $54,765,000 in Refunding Revenue Bonds, Series 2014C. The net proceeds were used to pay the costs of executing and delivering the 2014C Bonds, and advance refund the 2008A Refunding Certificates of Participation. The 2014C Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, provides for lower debt service from 2015 through 2030, and releases $5.7 million in reserves for use to fund capital projects.

The proceeds of the 2014C Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008A Refunding Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The transactions reduced annual debt service payment by $0.3 million to $8.1 million from 2015 through 2030 and resulted in no economic loss other than the cost to underwrite. The reacquisition price equaled the net carrying amount of the old debt.

NOTE 4 Noncurrent Liabilities (cont'd)

The 2014C Bonds include principal installments due in varying amounts from $305,000 to $8,090,000 annually from July 1, 2015 to July 1, 2030, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.03 percent.

The average annual interest rate experienced in fiscal year 2015 was 0.06 percent and the actual interest paid was $19,055.

2015A Refunding Revenue Bonds

In June 2015, the District issued $50,000,000 in Refunding Revenue Bonds, Series 2015A. The net proceeds were used to pay the costs of executing and delivering the 2015A Bonds, and advance refund the 2008G Refunding Certificates of Participation. The 2015A Bonds were issued as a subordinate lien which improves the debt service coverage on the outstanding senior debt, is supported by a new standby liquidity agreement at a reduced cost, and releases $5 million in reserves for use to fund capital projects.

The proceeds of the 2015A Bonds were deposited in an irrevocable trust with an escrow agent for the payment of the 2008G Refunding Certificates, and as a result, these Certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position. The transactions reduced annual debt service payment by $16.0 million to $17.3 million from 2036 through 2038 and resulted in no economic loss other than the cost to underwrite. The reacquisition price equaled the net carrying amount of the old debt.

The 2015A Bonds include principal installments due in varying amounts from $16,000,000 to $17,290,000 annually from July 1, 2037 to July 1, 2039, interest payable monthly at a variable rate for a weekly period. The future interest amounts are calculated at the rate in effect at June 30, 2015, which was 0.07 percent. The average annual interest rate experienced fiscal year 2015 was 0.03 percent and the actual interest paid was $767.

2015B Revenue Bonds

In June 2015, the Eastern Municipal Water District Financing Authority issued $74,430,000 in Revenue Bonds, Series 2015B. The net proceeds were used to finance the acquisition and construction of water and sewer system improvements for the District and to pay costs incurred in connection with the issuance of the 2015B Bonds. The 2015B Bonds were issued as a subordinate lien which maintains the debt service coverage on the outstanding senior debt.

The 2015B Bonds include principal installments due in varying amounts from $16,000,000 to $17,290,000 annually from July 1, 2037 to July 1, 2039, with interest payable semiannually at varying rates from 3.62 to 4.10 percent per annum.

NOTE 4 Noncurrent Liabilities (cont'd)

Certificates of Participation

Future principal and interest payments on total certificates of participation are as follows:

Year ending June	Principal	Interest	Total
2016	$ 4,340,000	$ 12,450,820	$ 16,790,820
2017	4,660,000	12,233,320	16,893,320
2018	4,920,000	11,997,620	16,917,620
2019	5,160,000	11,771,920	16,931,920
2020	5,365,000	11,535,120	16,900,120
2021-2025	51,520,000	51,057,652	102,577,652
2026-2030	48,415,000	38,586,712	87,001,712
2031-2035	101,850,000	21,310,856	123,160,856
2036-2040	33,690,000	770,344	34,460,344
2041-2045	29,135,000	46,614	29,181,614
2046-2048	13,180,000	5,966	13,185,966
Sub-Total	302,235,000	171,766,944	474,001,944
: Unamortized premium	2,781,306	-	2,781,306
Total	$ 305,016,306	$ 171,766,944	$ 476,783,250

2006A Certificates of Participation

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

The 2006A Certificates include principal installments due in varying amounts from $2,965,000 to $6,350,000 annually from July 1, 2015 to July 1, 2035, with interest payable semiannually at rates per annum ranging from 3.75 percent to 5.00 percent.

2007A Refunding Certificates of Participation

In May 2007, the Facilities Corporation issued $20,710,000 in Refunding Certificates of Participation, Series 2007A. The net proceeds of $22,274,458 were used to currently refund the District's 1997A certificates for $21,175,000, and to pay the municipal bond insurance policy premium and issuance costs. These certificates are considered defeased and the liability for the Certificates has been removed from the Statement of Net Position.

The 2007A Certificates include principal installments due in varying amounts from $85,000 to $6,860,000 annually from July 1, 2015 to July 1, 2023, with interest payable semiannually at rates ranging from 4.00 percent to 5.00 percent.

NOTE 4 Noncurrent Liabilities (cont'd)

2008A Refunding Certificates of Participation

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

2008C Refunding Certificates of Participation

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

In June 2014, $47,545,000 in principal payments for the 2008C Certificates was restructured. The restructured 2008C Certificates include principal installments due in varying amounts from $5,230,000 to $6,705,000 annually from July 1, 2039 to July 1, 2046, with interest payable monthly at a variable rate for a weekly period. The District may prepay all or part of the certificates at any time at par. The average annual interest rate experienced in fiscal year 2015 was 0.04 percent and the actual interest paid was $20,685 with an additional $2,028,629 to the counterparty.

The table on the following page incorporates the net swap payments associated with the 2008C Certificates and the related financial instrument. Using a variable interest rate of 0.03 percent as of June 30, 2015, the debt service requirements of the 2008C Certificates and the associated swap payments, assuming the current and the reference interest rates remain the same for their term, are as follows. As rates vary, the variable rate interest payments and net swap payments on the financial instruments will vary. Refer to Note 5 to the financial statements for additional information regarding the financial instrument associated with the 2008C Certificates.

NOTE 4 Noncurrent Liabilities (cont'd)

As referenced above, the 2008C Certificates were remarketed in June 10, 2014. As a result, the principal payment schedule was amended to begin July 1, 2039 with the last payment scheduled in July 1, 2046. The swap agreement was unchanged and therefore the net payment to the counterparty is based upon the original debt service schedule. The amendments to the principal debt service payments are reflected below:

Year ending June 30:	Principal	Interest	Net Payment to Counterparty	Total
2016	$ -	$ 14,264	$ 1,765,448	$ 1,779,712
2017	-	14,264	1,455,127	1,469,391
2018	-	14,264	1,127,547	1,141,811
2019	-	14,264	781,918	796,182
2020	-	14,264	416,993	431,257
2021-2025	-	71,318	32,206	103,524
2026-2030	-	71,318	-	71,318
2031-2035	-	71,318	-	71,318
2036-2040	5,230,000	71,318	-	5,301,318
2041-2045	29,135,000	46,614	-	29,181,614
2046-2047	13,180,000	5,966	-	13,185,966
Total	$ 47,545,000	$ 409,172	$ 5,579,239	$ 53,533,411

2008D Refunding Certificates of Participation

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

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

NOTE 4 Noncurrent Liabilities (cont'd)

2008G Certificates of Participation

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

2008H Certificates of Participation

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

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

General Obligation (GO) Bonds

Future principal and interest payments on total general obligation bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2016	$ 955,000	$ 1,784,807	$ 2,739,807
2017	995,000	1,741,233	2,736,233
2018	1,040,000	1,695,407	2,735,407
2019	1,085,000	1,647,265	2,732,265
2020	1,135,000	1,596,393	2,731,393
2021-2025	6,460,000	7,137,853	13,597,853
2026-2030	7,025,000	5,475,191	12,500,191
2031-2035	8,920,000	3,422,864	12,342,864
2036-2040	7,880,000	1,058,062	8,938,062
Sub-total	35,495,000	25,559,075	61,054,075
Add: Unamortized premium	401,296	-	401,296
Total	$ 35,896,296	$ 25,559,075	$ 61,455,371

NOTE 4 Noncurrent Liabilities (cont'd)

The District's general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2015, general obligation bonds authorized but not issued total $547,650,000.

2005A General Obligation Bonds

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

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

2009 General Obligation Bonds

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

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

NOTE 4 Noncurrent Liabilities (cont'd)

Debt Service Reserve Funds

The District is required to maintain a Debt Service Reserve Fund to be used for the payment of principal and interest of its Certificates of Participation and certain loans in the event that the District has not provided the Trustee with sufficient funds by the installment payment date to make the required installment sale payments. The current required reserve amount as determined by the bond documents and the reserve balance at June 30, 2015 for each outstanding debt issue is as follows:

Description	Required	Actual	Excess (Deficiency)
2006A COP	$ 8,493,018	$ 8,751,587	$ 258,569
2007A COP	3,915,278	3,950,040	34,762
2008H COP	14,055,342	14,003,500	(51,842)
Sub-total - COPs	26,463,638	26,705,127	241,489
Prop. 82 loan - $31.5M	206,598	206,798	200
Prop. 204 loan - $2.0M	130,914	131,300	386
Hemet WFP SRF - $42.1M*	1,473,444	1,491,717	18,273
Sub-total - Loans	1,810,956	1,829,815	18,859
Total	$ 28,274,594	$ 28,534,942	$ 260,348

*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).

NOTE 4 Noncurrent Liabilities (cont'd)

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, 2015, the District's parity and subordinate obligation debt service coverage ratios were 2.5 times and 2.3 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 at June 30, 2015 was $38,737,857 and the actual reserve balance was $44,902,338.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2015 are $246,130,000 Variable Rate Certificates of Participation, Series 2008C, 2014A, 2014B, 2014C, and 2015A Revenue Bonds (collectively, the Supported Variable Rate Debt). The Supported Variable Rate Debt have a tender provision for certificate holders on seven-days' notice, to tender their certificates/bonds at par value plus accrued interest. In connection with the issuance of the Supported Variable Rate Debt, the District executed Standby Purchase Agreements (SPA) between the Corporation and various banks. The SPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults". As of June 30, 2015, there were no outstanding certificates or bonds that have been tendered but failed to be remarketed. The bank and expiration date for each SPA at June 30, 2015 for each Supported Variable Rate Debt is:

Description	SPA Bank	SPA Expiration Date
2014C COP	Wells Fargo Bank, N.A.	10/27/2017
2008C COP	U.S. Bank National Association	12/11/2017
2014B COP	U.S. Bank National Association	10/06/2017
2015A Bond	MUFG Union Bank	06/22/2018
2014A Bond	Wells Fargo Bank, N.A.	06/12/2017

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NOTE 5 Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2015, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	Changes in Fair Value		Fair Value at June 30, 2015		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges:					
2014C Bonds	Pay-fixed interest swap				
	Deferred inflow	$ (79,722)	Debt	$ (8,621,843)	$ 54,765,000
2008C COP	Pay-fixed interest swap - cost of funds				
	Deferred inflow	$ (109,597)	Debt	$ (5,395,272)	$ 39,895,000

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by each swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding COP debt. The District realized greater interest savings from debt refinancing by issuing variable interest rate debt along with the financial instruments than would have been realized had the District issued conventional COP debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2015, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2014C debt issue	$ 54,765,000	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 - cost of funds	Hedge of changes in cash flows on the 2008C COP debt issue	$ 39,895,000	12/1/14	7/1/20	Pay 5.125% receive the SIFMA Swap Index from WFB	S&P: AA- Moody's: Aa2

NOTE 5 Interest Rate Swap Contracts (cont'd)

Credit Risk

The counterparty credit ratings as of June 30, 2015 are shown in the table on the previous page. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2015.

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 3.10 percent and receives 66 percent of 1-month LIBOR rate for the 2014C COP financial instrument, which may be different from the variable rate payments made on the 2014C COP 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 2014C and 2008C COPs rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value. In December 2014, the 2008C COP, with an initial notional amount of $39,895,000, was novated to a better rated counterparty with an effective date of December 1, 2014. In October 30, 2014, the Series 2008A COP, with an initial notional amount of $54,765,000, was also novated to a better rated counterparty with an effective date of November 1, 2014. These resulted in terminations of hedge accounting with the balances in deferred outflow being cleared. Hedge accounting resumes thereafter with the 2008C COP and the Series 2014C Refunding Revenue Bonds respectively. As of June 30, 2015, the financial instruments had a combined negative fair value of $14,017,115.

NOTE 5 Interest Rate Swap Contracts (cont'd)

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event its credit rating falls below A- as issued by Fitch Ratings and Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparties. At June 30, 2015, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative $14,017,115. If the collateral posting requirements were triggered at June 30, 2015, the District would be required to post $14,017,115 to its counterparty. The District's credit rating for the 2008C Certificates and 2014C Bonds is AA+/Aa2/AA and 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, 2015.

NOTE 6 Defined Benefit Pension 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.

NOTE 6 Defined Benefit Pension Plan (cont'd)

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, 2015 are summarized as follows:

	Miscellaneous		
Hire date	Prior to 11/1/10	11/1/10-1/1/13	On or after 1/1/2013
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%	6.25%
Required employer contribution rates	16.136%	16.136%	16.136%

Employees Covered

The following employees were covered by the benefit terms for each plan:

Active Members	651
Transferred Members	85
Terminated Members	101
Retired Members and Beneficiaries	375
Total	1,212

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, 2014 (the measurement date), the District's average contribution rate is 15.344 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.

NOTE 6 Defined Benefit Pension Plan (cont'd)

Actuarial Methods and Assumptions Used To Determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Paryoll Growth	Varies by Entry Age and Service
Investment Rate of Return	7.5% Net of Pension Plan Investment and Administrative Expenses, includes Inflation
Mortality Rate Table	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

All other actuarial assumptions used in the June 30, 2013 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.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 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. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the PERF. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

NOTE 6 Defined Benefit Pension Plan (cont'd)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expenses. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the agent multiple-employer plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of 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. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 fund. The expected rate of return 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 equivalent 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. These rates of return are net of administrative expenses.

NOTE 6 Defined Benefit Pension Plan (cont'd)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11[2]
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	100.0%		

[1]An expected inflation of 2.5% used for this period
[2]An expected inflation rate of 3.0% used for this period

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.

NOTE 6 Defined Benefit Pension Plan (cont'd)

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2013 (VD)	$333,723,063	$226,706,257	$107,016,806
Changes Recognized for the Measurement Period:			
Service Cost	7,775,568	-	7,775,568
Interest on the Total Pension Liability	24,817,574	-	24,817,574
Changes of Benefit Terms	-	-	-
Differences between Expected and Actual Experience	-	-	-
Changes of Assumptions	-	-	-
Contributions from the Employer	-	7,786,103	(7,786,103)
Contributions from Employees (1)	-	4,510,815	(4,510,815)
Net Investment Income	-	40,103,890	(40,103,890)
Benefit Payments, including Refunds of Employee Contributions	(13,419,729)	(13,419,729)	-
Net Changes during 2013-2014	$ 19,173,413	$ 38,981,079	$ (19,807,666)
Balance at 6/30/2014 (MD)	$352,896,476	$265,687,336	$ 87,209,140

(VD) Valuation Date

(MD) Measurement Date

(1) Includes both the employee contributions and the employer paid member contrbutions

NOTE 6 Defined Benefit Pension Plan (cont'd)

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 7.50 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 (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.5%)	Current Discount Rate (7.5%)	Discount Rate +1% (8.5%)
Plan's Net Pension Liability/(Asset)	$ 135,900,906	$ 87,209,140	$ 46,782,143

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

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 lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired as of the beginning of the measurement period).

NOTE 6 Defined Benefit Pension Plan (cont'd)

The EARSL for the Plan for the 2013-2014 measurement period is 5.1 years, which was obtained by dividing the total service years of 6,221 (the sum of remaining service lifetimes of the active employees) by 1,224 (the total number of participants). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that 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

As of the start of the measurement period (June 30, 2013), the Net Pension Liability is $107,016,806. For the measurement period ending June 30, 2014 (the measurement date), the District recognized a pension expense of $6,560,133 for the plan.

As of June 30, 2014, 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	$8,160,464	$0
Differences between Expected and Actual Experience	0	0
Changes in Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(18,581,696)
Total	$8,160,464	($18,581,696)

The amounts above are net inflows and outflows recognized in the 2013-2014 measurement period expense.

NOTE 6 Defined Benefit Pension Plan (cont'd)

The $8,160,464 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, 2016. 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, 2015	Deferred Outflows/(Inflows) of Resources
2015	($4,645,424)
2016	(4,645,424)
2017	(4,645,424)
2018	(4,645,424)
2019	0
Thereafter	0

NOTE 7 Defined Contribution Plan

The District maintains the EMWD 401a Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401a Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 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 $745,543 for the fiscal year ended June 30, 2015.

In July 2011, the District executed a plan amendment to its 401a Plan to provide for a contribution to this 401a Plan on behalf of the General Manager in accordance with his employment contract. Contribution to this 401(a) Plan was $36,222 the fiscal year ended June 30, 2015.

NOTE 8 Postemployment Benefits Other Than Pensions

The district provides a voluntary 457 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 deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan based upon the employee's annual base pay at a rate of 0.5% in Year 1 of the labor contract (fiscal year 2013-2014), 1.0% in Year 2 (fiscal year 2014-2015), and 1.5% in Year 3 (fiscal year 2015-2016). Matching contributions to the 401(a) plan totaled $378,780 for the fiscal year ended June 30, 2015.

Plan Description

Health Care Benefits – The District provides postemployment health care benefits to all qualified employees who meet the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple-employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code Section 22893 (Vesting for Contracting Agency Employees). This amount of District's contribution varies according to the retiree's medical benefit tiers as follow:

Tier 1 (hired prior to 8/1/05) – District pays up to the greater of Blue Shield or Kaiser Southern CA non-Medicare (basic) premium coverage, less retiree cost-sharing contributions. The cost-sharing monthly contribution was up to $43.33 for family coverage and required starting on December 16, 2014 and $86.67 starting on December 16, 2015. The District's monthly contribution was $1,567 in 2014 and $1,556 in 2015.

Tier 2 (hired from 8/1/05 to 3/26/14) – District pays the greater of Tier 1 contribution (after cost sharing) or PEMHCA published average of the four health benefit plans that had the largest state enrollment, multiplied by vesting percentage according to PEMHCA section 22893. Vesting percentages range from 50% to 100% for retirees with CalPERS service of 10 year to 20 years or more. Under the PEMHCA section 22893 the District's monthly contribution for Tier 2 was up to $1,559 in 2014 and $1,605 in 2015.

Tier 3 (hired after 3/26/14) – District's contribution was the PEMHCA minimum amount of $119/month in 2014 and $122/month in 2015.

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.

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.

NOTE 8 Postemployment Benefits Other Than Pensions (cont'd)

Funding Policy and Annual OPEB Cost

Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. The contribution requirements of the District for retired elected officials may be amended through Board action to update Ordinance 70, for the health benefit plan, or with the life insurance company, for the life insurance benefits. The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's policy is to continue to fund costs on a pay-as-you-go basis and to prefund a portion of the unfunded actuarial liability as part of a long-term financial planning strategy. On April 18, 2012, the District's Board of Directors adopted a resolution to establish an OPEB Trust and to authorize an agreement with PERS to join the California Employers' Retiree Benefit Trust (CERBT) Program. On June 12, 2012, the District joined the CERBT Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. PERS issues a publicly available financial report that includes financial statements and required supplementary information relating to the CERBT Program. The report can be obtained through their website at: www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/comprehensive-annual-financial.xml.

On April 18, 2012, the Board of Directors approved an initial funding amount of ten percent of the property tax revenues received in the prior fiscal year. This amount was calculated as $2,724,025 based on fiscal year ended June 30, 2013 revenues. In addition to this payment, the District contributed annual estimated pay-as-you-go costs totaling $3,399,110 to the CERBT Program to maximize investment earnings on these funds. Both of these contributions were made in July 2013. The District's total contribution for the fiscal year ended June 30, 2015 was $8,842,531. This total included a pay-as-you-go contribution of $3,437,500 and CERBT trust contributions of $5,405,031.

The District's annual OPEB cost for the current year, the amount actually contributed, the changes in net OPEB obligation, and the related information for each plan are shown in the table on the following page. Net OPEB expense, calculated as annual OPEB cost less the implied subsidy and pay-as-you-go amount contributed to the CERBT Program, is included in operating expenses in the accompanying financial statements. The Net OPEB obligation is shown as a separate item in noncurrent liabilities section in the accompanying financial statements.

NOTE 8 Postemployment Benefits Other Than Pensions (cont'd)

Contribution rates:

District	100% of pay-as-you-go amounts for employee and elected official monthly health care and life premiums
Plan members	Retirees pay the portion of the premium not paid by the District; for example, if they elect a more expensive plan than Blue Shield HMO or PERS Kaiser

Annual required contribution	$ 8,716,000
Interest on net OPEB obligation	3,094,000
Amortization of net OPEB obligation	(3,242,000)
Annual OPEB cost	8,568,000
Contributions Made	(8,842,531)
Implied subsidy benefit payments	(137,000)
Decrease in Net OPEB obligation	(411,531)
Net OPEB obligation, beginning of year	52,339,036
Net OPEB obligation, end of year	$ 51,927,505

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (liability) for 2013 through 2015 are shown in the following table.

Plan	Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees/Elected	06/30/13	$ 11,852,000	$ 5,740,000	48.4%	$ 50,212,171
Officials Healthcare and Life	06/30/14	8,358,000	6,123,135	73.3%	52,339,036
Insurance Plans	06/30/15	8,568,000	8,842,531	103.2%	51,927,505

NOTE 8 Postemployment Benefits Other Than Pensions (cont'd)

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2013, the plan's most recent actuarial valuation date, is shown in the following table (dollar amounts in thousands). Actuarially determined amounts were not calculated separately for each plan. The Schedule of Funding Progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial accrued liability	$	94,723
Actuarial value of plan assets		6,956
Unfunded actuarial accrued liability		87,767
Funded ratio		7.9%
Covered payroll	$	51,485
Unfunded actuarial accrued liability as a percentage of covered payroll		170.5%

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.

NOTE 8 Postemployment Benefits Other Than Pensions (cont'd)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial valuations involve the use of future estimates that are subject to continual revision. These calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Valuation date	June 30, 2013		
Actuarial cost method	Entry age normal		
Amortization method	Level percent of payroll		
Remaining amortization period	26 years as of the valuation date		
Asset valuation method	Gains and losses spread over a 5-year rolling period		
Actuarial assumptions:			
Pre-funding	10% of property tax revenue, grading to full ARC less expected benefit payments for 2023/24		
Investment rate of return	Ranges from 5.75% in 2013/14 to 7.25% in 2030/31		
General inflation rate	3.00%		
Payroll growth	3.25%		
Healthcare cost trend rate	Fiscal	(% Increase Over Prior Year)	
	Year	Non-Medicare	Medicare
	2013	Actual PEMHCA[1] /Kaiser A Premiums	
	2014	Actual PEMHCA /Kaiser A Premiums	
	2015	8.0%	8.3%
	2014-2021	Decreases 0.5% each year	Decreases 0.5% to 0.6% each year
	2021+	5.0%	5.0%
	Active	Retired	Total
Plan participants[2]	617	354	971

1. PEHMCA relates to the Public Employees' Medical and Hospital Care Act.
2. Employees must retire from the District to receive OPEB benefits.

Initial unfunded liabilities are amortized over a fixed (closed) 30-year period. This period was restarted for the June 30, 2008 valuation. When the amortization period reaches 15 years, new gains and losses will be amortized over a rolling (open) 15-year period and plan and assumption changes will be amortized over a fixed (closed) 20-year-year period.

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 $26,554,335 of open construction contracts as of June 30, 2015. The contracts with the largest remaining balances include:

	Contract Amount	Balance To Complete
City Of Temecula Old Town Sewer Impr	$ 11,750,905	$6,743,434
MV/PV/SJC/SC RWRFS Solar DB PH2A	11,777,741	6,069,446
TVRWRF Solar DB PH2B	2,745,616	2,594,607
Wine Country-Armada Place Lift Station	2,211,794	1,843,190
Salt Creek Regional Sewer Improve	4,092,849	1,608,225
County Water Company Consolidation	1,547,836	1,502,836
Wine Country-Loma Ventoso Lift Station	2,452,475	1,195,295
Well 38 Drilling	1,567,629	1,149,179
SJVRWRF Title 22 & Plant 2 Facilities	117,614,622	1,075,314
Longview Tank	4,249,659	581,239
TOTAL	$160,011,126	$24,362,765

NOTE 10 Commitments (cont'd)

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and flooding for which the District maintains various insurance programs. The District has entered into contracts to oversee and administer these programs.

The District maintains excess insurance coverage of $10,000,000 per occurrence with a $750,000 self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of $10,000,000 per occurrence with a $1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any non-incremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a structured workers compensation settlement was reached, which included a present value of $5.3 million in future payments calculated using a discount rate of 3 percent over 30 years. Changes in claims payable for the years ended June 30 are as follows:

	Beginning Balance June 30, 2014	Additions	Reductions	Ending Balance June 30, 2015	Due Within One Year
General liability claims	$ 279,549	$ 108,497	$ (34,679)	$ 353,367	$ 353,367
Workers compensation claims	7,195,809	947,966	(1,289,849)	6,853,926	1,500,000
Equipment damage claims	–	54,711	(54,711)	–	-
Dental claims	41,662	820,122	(827,995)	33,789	33,789
Total unpaid claims	$ 7,517,020	$ 1,931,296	$ (2,207,234)	$ 7,241,082	$ 1,887,156

	2015	2014
Unpaid claims, beginning	$ 7,517,020	$ 7,425,895
Incurred claims and changes in estimates	1,931,296	2,439,572
Claim payments	(2,207,234)	(2,348,447)
Unpaid claims, ending	$ 7,241,082	$ 7,517,020

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2014 to 2015. There were no settlements that exceeded insurance coverage for the two prior fiscal years ended June 30, 2015 and June 30, 2014. However, the settlement discussed above did exceed the District's coverage at the time of the legal decision and the District subsequently purchased excess insurance coverage.

NOTE 10 Commitments (cont'd)

Soboba Settlement Act

The District is a party to the Soboba Settlement Act (Act). This Act was signed into Law by the President of the United States of America on July 31, 2008 and approved the Settlement Agreement between the Soboba Band of Luiseño Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD), the Metropolitan Water District of Southern California (MWD), and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of Lake Hemet by the LHMWD. Notice regarding the statement of findings for the act was published in the Federal Register on November 28, 2011 and the Settlement Agreement became enforceable.

The Settlement Agreement provides that:

a. The Tribe shall have a senior rights to 9,000 acre feet of water each year;
b. The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
c. The District shall contract with MWD for a long term water supply agreement to bring 7,500 acre feet of additional imported settlement water into the area each year to meet the current and future needs;
d. The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
e. The groundwater management plan is to include arrangements between the municipal pumpers in the area (LHMWD, the cities of Hemet and San Jacinto, and the District) regarding limitations on pumping from the groundwater basin;
f. The federal government shall provide some funding for compliance with the agreement; and,
g. MWD and the District will transfer land that each agency owns to the Tribe in full satisfaction of the tribe's damages because of construction of the San Jacinto Tunnel.

The District's share for the construction of the facilities and use of Tribe's water is estimated to be $8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP and requires the local agencies to contribute towards principal payments totaling $12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a 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.

NOTE 10 Commitments (cont'd)

Due to the extended drought conditions, only 3,754 acre feet of imported settlement water was available to meet the calendar year 2014 annual required amount of 7,500 acre feet. There is a remaining calendar year 2014 obligation of 3,746 acre feet of imported settlement water to be met as soon as water supply is available. In addition, as of June 30, 2015, there has been no water supply available towards the calendar year 2015 obligation. The District's share of the imported settlement water for calendar year 2014 that was recorded in Fiscal Year 2014-15 was 2,926 acre feet and was delivered in-lieu of well production. In-lieu recharge of the settlement water was necessary for the Hemet San Jacinto area as a result of MWD converting its source of supply from Northern California water to Colorado River Aqueduct (CRA) water. Direct recharge of CRA water into the Hemet-San Jacinto Groundwater Basin would have exceeded the salinity objective set forth by the State Water Resource Control Board approved Basin Plan.

In addition, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals and recorded $2,532,821 and $2,091,314 in water inventory for the fiscal years ended June 30, 2015 and June 30, 2014, respectively. The District's methodology identifies various water layers in the basin and assigns a zero dollar value to native water, with additions of imported Settlement Agreement water valued at purchased cost and withdrawals valued at a weighted average cost of all inventory layers. The inventory addition amount of 166 acre feet represents a calculation adjustment by the Watermaster to reverse the 2012 and 2013 Tribe usage. The following table illustrates the changes in water inventory for the fiscal years ended June 30, 2015 and June 30, 2014.

	Beginning Balance June 30, 2014	Additions	Reductions	Ending Balance June 30, 2015
Acre feet	77,333	166	(6,626)	70,873
Dollar value	$ 2,091,314	$ 620,700	$ (179,192)	$ 2,532,821

As part of the implementation of the groundwater management plan, in 2013 the Watermaster entered into a support services agreement with the District for the District to provide water monitoring program support services and administrative support services to the Watermaster. The District recorded a $119,790 receivable from the Watermaster for outstanding billings of support services at June 30, 2015.

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, 2015 was $219,392,228. 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, 2014 SAWPA had total assets of $177,502,546 and total net assets of $66,595,968. 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

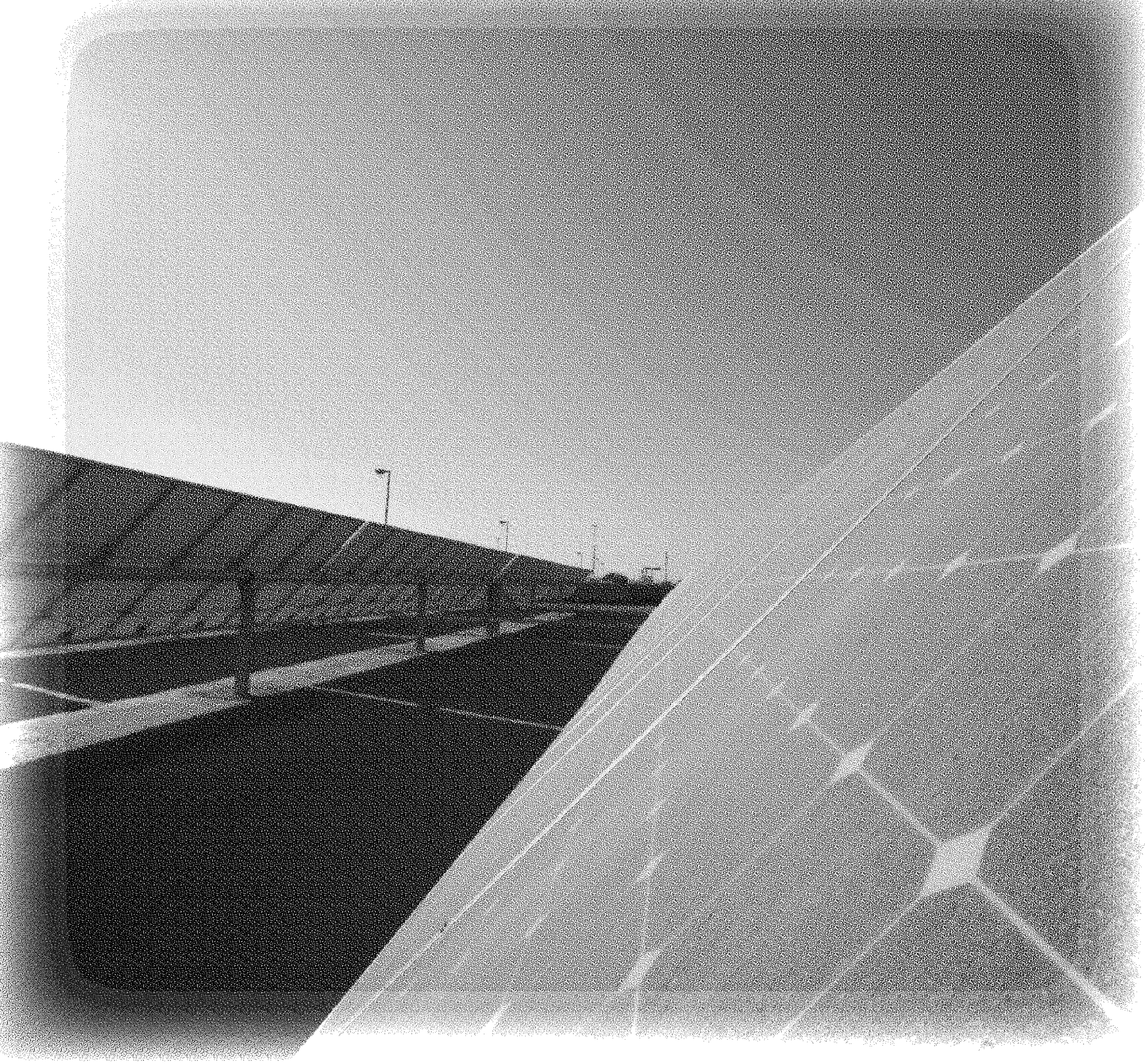
The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2015, the amount of refundable deposits were $18,460,136. When a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.

NOTE 14 Subsequent Events

In January 2014, the Governor declared a drought state of emergency; encouraged local suppliers to reduce usage by 20 percent, and have local suppliers develop or update water contingency plans. The District amended its water shortage contingency plan (WSCP) in March 2014 to better reflect contemporary needs of the District. The WSCP includes five stages, with the first 2 stages being voluntary measures to encourage conservation. Stage 3 and 4 are mandatory stages with escalating adjustments to outdoor water budget allocations to domestic customers. Stage 5 includes staged adjustments to water budgets for indoor use. On April 1, 2015, the Governor issued an executive order including a directive to the State Water Resources Control Board (SWRCB) to impose restrictions to reduce potable urban water use by 25 percent from 2013 levels by February 2016. On May 6, 2015, the SWRCB adopted regulations that required the District to effect a 28 percent reduction from 2013 water usage. Effective June 1, 2015, the District implemented Stage 4a (Mandatory Outdoor Reduction) of the WSCP, which calls for customer to reduce outdoor irrigation by 50 percent and reduced tier 2 water budgets by 10 percent. The District is currently in a Stage 4b, which reduces tier 2 water budgets by 30 percent. As of October 2015, the District has reduced potable urban water use by 20 percent.

NOTE 15 Restatement of Prior Year Financial Statements

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined pension plans in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in reducing the net position by $103,259,883.



Solar Power Generation

The Solar Energy Project consists of the installation of solar power systems at EMWD facilities. EMWD celebrated the dedication of its solar energy generation facility, which will produce 500 kilowatts of power, at its Perris headquarters in March 2015. The estimated 20-year savings at that site is more than $8 million.

Additional solar power systems will be installed at EMWD's four active reclamation plants and at its desalination facility. Each of those sites will produce 1 megawatt with an estimated 20-year savings of more than $37 million.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

Schedule of Changes in Net Pension Liability and Related
Ratios During the Measurement Period
Last Ten Fiscal Years *

Measurement Period	2013-2014
Total Pension Liability	
Service Cost	$ 7,775,568
Interest	24,817,574
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(13,419,729)
Net Change in Total Pension Liability	19,173,413
Total Pension Liability - Beginning	333,723,063
Total Pension Liability - Ending (a)	$ 352,896,476
Plan Fiduciary Net Position	
Contributions - Employer	$ 7,786,103
Contributions - Employee	4,510,815
Net Investment Income	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(13,419,729)
Other Changes in Net Fiduciary Position	-
Net Change in Fiduciary Net Position	38,981,079
Plan Fiduciary Net Position - Beginning	226,706,257
Plan Fiduciary Net Position - Ending (b)	$ 265,687,336
Plan Net Pension Liability - Ending (a) - (b)	$ 87,209,140
Pension Liability	75.29%
Covered Employee Payroll	$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	180.99%

Notes To Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies to voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes in Assumptions: There were no changes in assumptions.

EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

Schedule of Pension Plan Contributions
Last Ten Fiscal Years*

	Fiscal Year 2014-2015
Actuarially Determined Contribution	$ 8,160,464
Contributions in Relation to the Actuarially Determined Contribution	(8,160,464)
Contribution Deficiency (Excess)	$ -
Covered Employee Payroll	$ 50,202,213
Contributions as a Percentage of Covered Employee Payroll	16.255%

*Fiscal Year 2015 was the first year of implementation, therefore, only one year is shown.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2013 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	Level Percent of Payroll *
Asset Valuation Method	Market Value*
Inflation	2.75%
Salary Increase	3.30% to 14.20% depending on age, service, and type of employment
Payroll Growth	3.00%
Investment Rate of Return	7.50%, net of administrative 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 mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries

* For details, see June 30, 2013 Funding Valuation Report

EASTERN MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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
06/30/12	06/30/11	120.3	–	120.3	N/A	47.6	252.7%
06/30/13	06/30/11	130.1	2.7	127.5	2.0%	49.2	259.1%
06/30/14	06/30/13	94.7	6.9	87.8	7.0%	51.5	170.5%

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<u>County Water Company Consolidation</u>

EMWD and Elsinore Valley Municipal Water District (EVMWD) sought and secured grant funding from the California Department of Public Health to provide a long-term transition of service for the 140 homes that were served by the privately-owned County Water Company of Riverside. County Water Company was dependent on a single well that extracted unsafe drinking water, and its infrastructure failed frequently, leaving residents with little to no water supply during those times.

New pipelines are being installed to connect to EMWD and EVMWD's existing infrastructure in the region.

STATISTICAL SECTION

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.

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NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

Fiscal Year		2006		2007		2008		2009		2010		2011		2012		2013		2014		2015[1]
Net investment in capital assets	$	864,024,679	$	963,472,752	$	1,097,667,937	$	1,084,747,657	$	1,153,155,186	$	1,182,870,831	$	1,231,275,509	$	1,239,753,130	$	1,300,393,466	$	1,370,476,337
Restricted for debt service/covenants		58,964,117		57,377,104		56,443,385		58,248,958		65,090,658		65,433,313		64,333,290		73,268,230		70,625,613		74,689,785
Restricted for construction		193,659,075		238,268,776		133,617,326		169,061,541		150,977,362		127,083,266		99,513,601		56,375,249		45,199,054		40,347,436
Unrestricted		86,541,422		62,672,401		101,896,457		120,482,286		129,229,640		136,478,455		126,867,540		148,512,588		134,353,793		(7,842,690)
Total net position	$	1,203,189,293	$	1,321,791,033	$	1,389,625,105	$	1,432,540,442	$	1,498,452,846	$	1,511,865,865	$	1,521,989,940	$	1,517,909,197	$	1,550,571,926	$	1,477,670,868
% Increase		12.0%		9.9%		5.1%		3.1%		4.6%		0.9%		0.7%		-0.3%		2.2%		-4.7%

Note:
1. Change from prior year includes a net prior period adjustment of ($103,259,883). Change in net position for fiscal year 2015 is $30,358,825. Refer to note 15 to the financial statements for more information on the adjustment.

Source: Eastern Municipal Water District

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

Fiscal Year	Operating Revenues Water[1]	Operating Revenues Wastewater[2]	Operating Expenses[3] Water	Operating Expenses[3] Wastewater	Operating Loss	Total Nonoperating Revenues/ (Expenses)[4]	Income Before Capital Contributions	Capital Contributions[5]	Change in Net Position
2006	77,611,474	47,407,080	96,891,371	67,918,954	(39,791,771)	120,029,885	80,238,114	48,300,420	128,538,534
2007	92,679,789	53,066,742	113,677,146	77,853,830	(45,784,445)	106,629,828	60,845,383	57,756,357	118,601,740
2008	94,135,642	56,972,828	122,519,535	90,017,563	(61,428,628)	90,911,996	29,483,368	38,350,704	67,834,072
2009	103,013,429	62,611,918	122,515,771	94,629,395	(51,519,819)	59,613,648	8,093,829	34,821,508	42,915,337
2010	102,747,031	65,937,963	134,462,273	96,301,243	(62,078,522)	51,691,692	(10,386,830)	49,369,637	38,982,807
2011	102,009,545	67,114,654	137,981,887	98,467,509	(67,325,197)	41,208,043	(26,117,154)	39,530,173	13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729
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

Notes:

1. The District implemented a budget-based tiered water rate structure for single and multifamily residential and landscape customers beginning April 2009. This structure was designed to be revenue neutral, however, significant billings were in the higher-use wasteful tiers. Billings in these tiers decreased beginning in 2010 due to conservation efforts.

2. In February 2013, a new block rate sewer methodology was implemented based on the number of household occupants. This structure is designed to compliment the domestic retail water rate structure.

3. GASB Statement No. 45 was implemented in 2008; net other postemployment benefits expense of \$6.2, \$8.9, \$11.1, \$11.5, \$15.3, \$11.9, \$8.4 and \$8.6 million for fiscal years 2008-2015 are included.

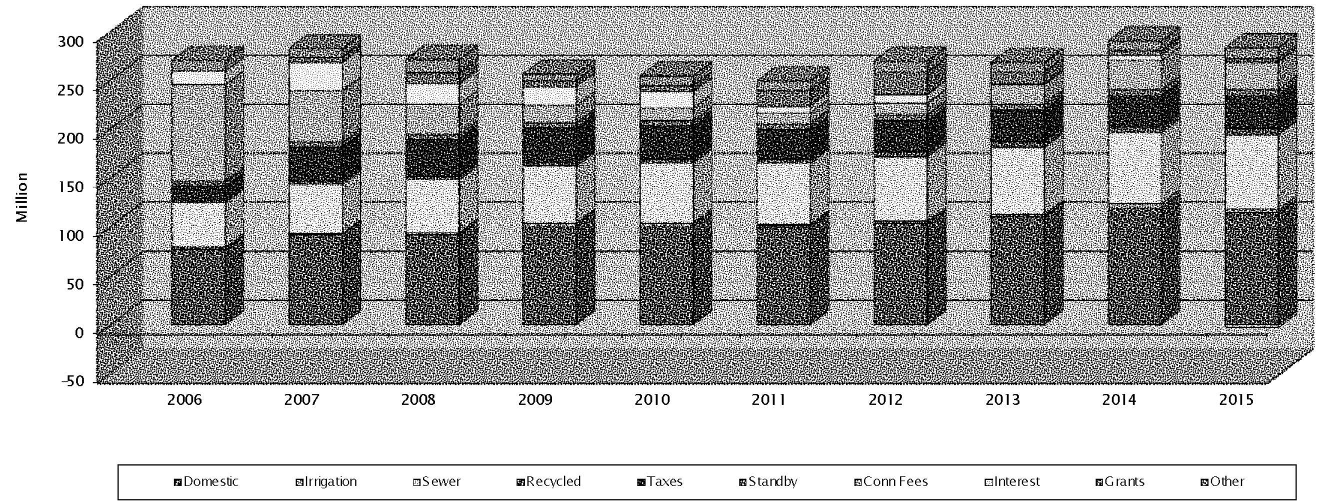
4. Total operating and capital grant revenues are included in nonoperating revenues and expenses prior to 2010. Capital grants totaling \$5.7, \$15.6, \$22.6, 10.5, \$4.2 and \$2.1 million are included in capital contributions for 2010-2015 (see revenue by source).

5. Higher construction activity relating to growth and market conditions account for the increases in contributed infrastructure from 2004-2007. This amount decreased for 2008, 2009 and 2011 due to lower construction activity and increased in 2010 due to District-wide efforts to close out construction projects.

Source: 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[1]	% of Total	Standby Assmnts	% of Total	Connect Fees[2]	% of Total	Interest Income[3]	% of Total	Grants[4]	% of Total	Other	% of Total	Total Revenues
2006	76,543,807	28.5%	1,067,667	0.4%	45,462,646	16.9%	1,944,434	0.7%	14,747,589	5.5%	4,518,411	1.7%	99,485,272	37.1%	13,804,446	5.2%	-	0.0%	10,808,046	4.0%	268,382,318
2007	91,596,156	32.5%	1,083,633	0.4%	50,318,414	17.9%	2,748,328	1.0%	34,849,428	12.4%	4,667,297	1.7%	52,894,363	18.8%	29,287,538	10.4%	4,598,769	1.6%	9,321,989	3.3%	281,365,915
2008	91,864,344	34.0%	2,271,298	0.8%	54,408,172	20.1%	2,564,656	0.9%	37,648,103	13.9%	4,868,154	1.8%	30,706,687	11.4%	20,579,581	7.7%	11,261,996	4.2%	13,867,981	5.2%	270,040,972
2009	100,967,796	38.9%	2,045,633	0.8%	58,889,788	22.7%	3,722,130	1.4%	35,102,975	13.5%	5,015,076	1.9%	17,789,045	6.9%	19,093,011	7.4%	6,466,818	2.5%	10,224,676	4.0%	259,316,948
2010	100,699,778	39.8%	2,047,253	0.8%	61,885,298	24.5%	4,052,665	1.6%	33,559,211	13.3%	5,246,008	2.1%	13,010,929	5.1%	16,028,408	6.3%	6,063,577	2.4%	10,510,099	4.2%	253,103,226
2011	100,198,290	40.1%	1,811,255	0.7%	62,609,731	25.1%	4,504,923	1.8%	30,354,685	12.2%	5,569,818	2.2%	10,815,294	4.3%	7,553,352	3.0%	16,137,906	6.5%	10,117,631	4.1%	249,672,885
2012	103,226,203	38.4%	1,515,039	0.6%	65,983,462	24.5%	5,135,186	1.9%	31,730,750	11.8%	5,600,661	2.1%	12,150,826	4.5%	9,208,523	3.4%	22,926,555	8.5%	11,533,511	4.3%	269,010,716
2013	110,468,194	41.1%	1,988,610	0.7%	68,957,128	25.7%	5,676,043	2.1%	32,555,228	12.1%	5,635,153	2.1%	20,364,185	7.6%	831,935	0.3%	12,503,511	4.7%	9,579,321	3.6%	268,559,308
2014	118,695,153	40.9%	4,029,022	1.4%	73,100,086	25.2%	6,125,420	2.1%	32,578,837	11.2%	5,700,591	2.0%	30,149,861	10.4%	4,923,583	1.7%	5,214,780	1.8%	9,622,670	3.3%	290,140,003
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%	3,830,382	1.4%	8,722,157	3.1%	278,911,003



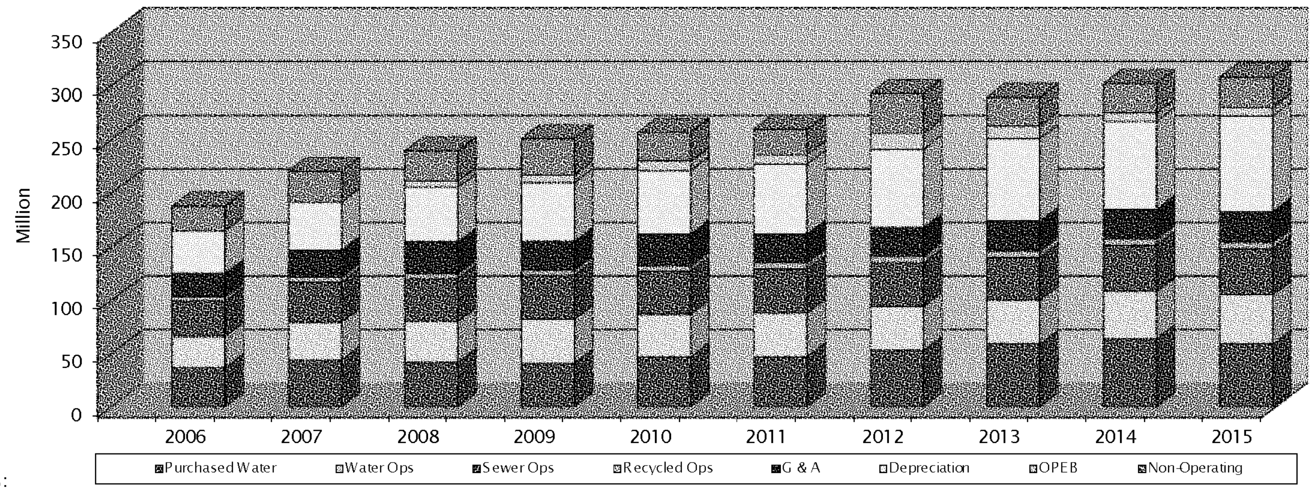
Notes:

1. In 2007, the District received its full share of property taxes, which were lower for the prior two years due to the state mandated property tax shift from local governments. The increase is also due to a 20% increase in assessed valuations and growth in customer base.
2. The decrease in connection fees is due to lower construction activity in 2007-2012 relating to the nationwide financial recession. The increased amount in 2013 relates to added connections and a rate increase in January 2013.
3. Increased interest income for 2007-2008 is due to a higher average portfolio balance and higher average yields. For 2008-2010, the increased amounts relate to invested COP and GO bond issuance funds. For 2011, the decrease primarily relates to a lower level of invested construction funds and recording a $3.2 million decrease in fair value of investments. The decreased amount for 2012 relates mainly to lower average yields. The decreased amount for 2013 primarily relates to recording a $3.7 million decrease in fair value of investments and lower average yields for the year.
4. Grant revenues were separately stated beginning 2007; previously, these amounts were shown as capital contributions or other revenue. Amounts include operating and capital grant revenues.

Source: Eastern Municipal Water District

EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water 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
2006	36,817,458	19.6%	29,030,238	15.4%	33,061,321	17.6%	4,289,919	2.3%	21,520,070	11.4%	40,091,319	21.3%	-	0.0%	23,333,879	12.4%	188,144,204
2007	43,866,732	19.9%	35,332,561	16.0%	37,404,662	17.0%	4,379,135	2.0%	25,292,047	11.5%	45,255,839	20.5%	-	0.0%	28,989,556	13.1%	220,520,532
2008	41,653,430	17.3%	38,447,533	16.0%	39,976,740	16.6%	5,071,116	2.1%	30,138,792	12.5%	51,030,538	21.3%	6,218,949	2.6%	28,020,506	11.6%	240,557,604
2009	41,318,803	16.4%	40,834,689	16.3%	41,160,507	16.4%	4,749,447	1.9%	27,471,196	10.9%	54,545,053	21.7%	7,065,471	2.8%	34,077,953	13.6%	251,223,119
2010	46,936,179	18.2%	39,967,447	15.5%	39,657,747	15.4%	5,466,039	2.1%	30,256,670	11.7%	59,347,777	23.0%	9,131,657	3.5%	27,061,214	10.5%	257,824,730
2011	46,489,850	17.9%	41,364,910	15.9%	41,247,883	15.9%	6,103,502	2.3%	26,707,578	10.3%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,170,021
2012	52,697,993	18.0%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276
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



Notes:

1. The increase in general and administrative charges in 2008 primarily relates to increased legal expense for a lawsuit the District was involved in. The decrease in 2009 primarily relates to settlement of the lawsuit and department-wide cost-containment efforts. This amount was offset by a reclassification of net internal service funds which were reclassified to other nonoperating revenues beginning in 2009. The increase in 2010 primarily relates to recording a $3.0 million increase in worker's compensation liability reserve.
2. The District implemented GASB Statement No. 45 in 2008. Beginning in 2012, OPEB pay-as-you-go costs were removed from other operating expense categories and shown as total OPEB cost.
3. The decrease in 2010 and 2011 primarily relates to recording $6.7 and $8.6 million, respectively, of capitalized construction period interest. The increase in 2012 relates mainly to added one-time costs of $4.3 million for voluntary termination benefits and $5.3 million in settlement payments for a lawsuit with San Jacinto Z LLC.

Source: Eastern Municipal Water District

WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS

Fiscal Year	Water: Gallons Produced[1] Purchased	Wells	Desalters	Total	Gallons Consumed Domestic	Ag & Irrig	Total	Unbilled Total	Avg %	Gallons of Wastewater Treated	Total Direct Rate Water Base Rate[2,5]	Usage Rate[3,5]	Sewer[4]
2006	25,818	6,353	944	33,115	29,688	771	30,459	2,656	8.0%	16,352	8.15	32.36	18.86
2007	29,866	6,071	1,613	37,550	33,883	1,263	35,146	2,404	6.4%	16,786	8.43	34.40	19.64
2008	28,254	6,591	982	35,827	32,284	1,537	33,821	2,006	5.6%	16,906	10.04	36.38	20.58
2009	25,390	6,332	1,455	33,177	30,721	1,225	31,946	1,231	3.7%	16,482	10.52	41.52	21.88
2010	23,042	5,555	1,816	30,413	27,001	1,116	28,117	2,296	7.5%	16,436	10.52	46.32	22.73
2011	21,611	5,220	1,943	28,774	25,958	857	26,815	1,959	6.8%	16,805	10.52	48.26	22.90
2012	22,365	5,244	1,783	29,392	27,154	690	27,844	1,548	5.3%	16,425	10.52	47.50	23.96
2013	23,709	5,683	1,909	31,301	28,078	860	28,938	2,363	7.6%	16,363	10.52	49.92	24.72
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	16,389	10.77	52.50	25.90
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

Notes:
The information shown does not include recycled water.
1. Gallons are presented in millions.
2. Rate shown is based on the daily fixed charge for meters up to and including 1".
3. Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
4. Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.
5. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

Source: Eastern Municipal Water District

WATER AND SEWER RATES
LAST TEN FISCAL YEARS

Fiscal Year	2006	2007	2008	2009[3]	2010	2011	2012	2013	2014	2015
Water Rates										
Monthly base rate (meter size)										
<=1"	$ 8.15	$ 8.43	$ 10.04	$ 10.52	$ 10.52	$ 10.52	$ 10.55	$ 10.52	$ 10.77	$ 11.16
1 1/2"	12.23	12.65	15.06	27.68	27.68	27.68	27.76	27.68	28.29	29.50
2"	16.30	16.85	20.08	51.40	51.40	51.40	51.55	51.40	52.62	54.45
3"	32.61	33.70	40.15	171.25	171.25	171.25	171.72	171.25	175.20	181.59
4"	40.76	42.16	50.19	270.40	270.40	270.40	271.15	270.40	276.49	286.83
6"	57.06	59.01	70.26	505.53	505.53	505.53	506.91	505.53	517.08	536.25
8"	65.21	67.40	80.30	633.28	633.28	633.28	635.01	633.28	647.88	671.60
Usage rate (per billing unit)[1]	$ 32.36	$ 34.40	$ 36.38	$ 41.52	$ 46.32	$ 48.26	$ 47.50	$ 49.92	$ 52.50	$ 53.76
Sewer Rates (avg per month)[2]	$ 18.86	$ 19.64	$ 20.58	$ 21.88	$ 22.73	$ 22.90	$ 23.96	$ 24.72	$ 25.90	$ 27.01

Notes:

The information shown does not include recycled water.

Rates are adopted by the Board of Directors annually and become effective on the date of adoption or per Board direction.

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
2. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as the weighted average daily rate, times 365 days per year, divided by 12 months per year.
3. In January 2009, the District revised the daily fixed charge meter factors for all domestic retail customers. In April 2009, the District implemented a budget-based tiered rate structure for single-family and multi-family residential and landscape domestic usage.

Source: Eastern Municipal Water District

CUSTOMERS BY WATER SERVICE TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total	Recycled	Total
	← Treated and Untreated Water →									
2006	119,340	2,677	132	582	910	1,793	554	125,988	164	126,152
2007	125,433	2,827	134	607	849	1,972	574	132,396	204	132,600
2008	128,184	3,103	135	614	737	2,146	603	135,522	230	135,752
2009	129,242	3,282	137	608	557	2,236	627	136,689	260	136,949
2010	133,320	3,276	140	597	373	2,260	649	140,615	266	140,881
2011[1]	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081
2014	134,656	3,347	136	679	426	2412	721	142,377	316	142,693
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611

WATER SERVICE TYPE BY CUSTOMER CATEGORY
FISCAL YEAR 2015

	Residential	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total
Domestic	136,425	3,408	138	629	412	2,442	637	144,091
Agricultural	–	2	–	4	–	4	122	132
Wholesale	–	–	–	32	–	–	–	32
Total	136,425	3,410	138	665	412	2,446	759	144,255

Note:
1. Decreased amounts are due to level of bank-owned homes relating to the economic downturn and less construction.

Source: Eastern Municipal Water District

LARGEST DOMESTIC WATER CUSTOMERS
AS OF JUNE 30, 2015

	Customer Name	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	City of Perris[1]	1,984	$ 2,353,719	22.4%
2	City of Moreno Valley	869	1,242,282	11.8%
3	Valley-Wide Recreation Park	826	1,162,854	11.1%
4	Western Municipal Water District[1,2]	990	1,140,114	10.9%
5	Moreno Valley School District	896	1,095,454	10.4%
6	Val Verde Unified School District	636	852,690	8.1%
7	Riverside County EDA	640	845,051	8.1%
8	City of Murrieta	520	765,172	7.3%
9	Country Meadows II Assoc.	414	589,967	5.6%
10	Stonegate at Towngate	370	443,162	4.2%
	Total	8,145	$ 10,490,465	
	Total domestic water sales	79,914	$ 113,859,511	
	Percentage of total	10.2%	9.2%	

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

LARGEST AGRICULTURAL & IRRIGATION WATER CUSTOMERS
AS OF JUNE 30, 2015

	Customer Name	Annual Water Sales in Acre Feet		Annual Revenues	Percentage
1	Kevin and Pauline Doan	165	$	197,722	22.8%
2	C & R Farms	321	$	160,444	18.5%
3	Metropolitan Water District	86	$	101,189	11.7%
4	HP Mobile Estates	62	$	73,711	8.5%
5	Bootsma Essie	138	$	71,891	8.3%
6	McAnally Egg Enterprises	56	$	66,677	7.7%
7	Demler Egg Ranch	89	$	53,410	6.2%
8	Expressway Dairy	81	$	51,479	5.9%
9	Albert Goyenethe Dairy	72	$	45,667	5.3%
10	Valley Health System	43	$	44,390	5.1%
	Total	1,113	$	866,580	
	Total ag. & irrigation water sales	4,447	$	3,435,641	
	Percentage of total	25.0%		25.2%	

Notes:

The District has a number of irrigation water rates depending upon service area and whether deliveries are scheduled or unscheduled.

Source: Eastern Municipal Water District

LARGEST RECYCLED WATER CUSTOMERS
AS OF JUNE 30, 2015

	Customer Name	Annual Water Sales in Acre Feet		Annual Revenues	Percentage
1	Inland Empire Energy Center LLC	1,874	$	638,465	26.7%
2	Rancho Casa Loma	4,229		260,386	10.9%
3	Agri Empire	3,207		260,197	10.9%
4	Iris Landing HOA	2,304		212,597	8.9%
5	Valley Wide Recreation	523		184,490	7.7%
6	Hemet Golf Club Landmark	392		180,769	7.6%
7	Don Bean Farms	2,081		173,385	7.2%
8	GCGI Partners Inc	469		164,922	6.9%
9	Dept of Fish and Game	3,787		161,788	6.8%
10	Marvo Holstein	2,118		155,450	6.5%
	Total	20,984	$	2,392,449	
	Total recycled water sales	35,617	$	6,392,763	
	Percentage of total	58.9%		37.4%	

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

LARGEST SEWER CUSTOMERS
AS OF JUNE 30, 2015

	Customer Name	Annual Revenues	Percentage
1	Pechanga Resort and Casino	$ 478,456	19.2%
2	Stonegate at Towngate	357,306	14.4%
3	New Highland Meadows	313,481	12.6%
4	Riverside County EDA	237,951	9.6%
5	The Vineyards at Menifee	227,653	9.1%
6	Van Daele Development	220,990	8.9%
7	Murrieta Valley Unified School District	192,390	7.7%
8	Val Verde School District	179,404	7.2%
9	Hemet Unified School District	140,566	5.6%
10	Faircrest Homeowners Association	139,952	5.6%
	Total	$ 2,488,149	
	Total sewer revenue	$ 77,120,505	
	Percentage of total revenue	3.2%	

Source: Eastern Municipal Water District

SUMMARY OF IMPORTED WATER RATES
LAST TEN FISCAL YEARS
(dollars per acre-foot)

Rates Effective Beginning January		Full Service Domestic		Interim Agricultural Program[1]		Long Term Seasonal Storage	
		Treated	Untreated	Treated	Untreated	Treated	Untreated
2006	Tier 1	453	331	339	241	335	238
	Tier 2	549	427	n/a	n/a	n/a	n/a
2007	Tier 1	478	331	364	241	360	238
	Tier 2	574	427	n/a	n/a	n/a	n/a
2008	Tier 1	508	351	394	261	390	258
	Tier 2	606	449	n/a	n/a	n/a	n/a
2009	Tier 1	579	412	465	322	436	294
	Tier 2	695	528	n/a	n/a	n/a	n/a
2010	Tier 1	701	484	615	416	558	366
	Tier 2	811	594	n/a	n/a	n/a	n/a
2011	Tier 1	744	527	687	482	601	409
	Tier 2	869	652	n/a	n/a	n/a	n/a
2012	Tier 1	794	560	765	537	651	442
	Tier 2	920	686	n/a	n/a	n/a	n/a
2013	Tier 1	847	593	n/a	n/a	n/a*	n/a*
	Tier 2	997	743	n/a	n/a	n/a	n/a
2014	Tier 1	890	593	n/a	n/a	n/a*	n/a*
	Tier 2	1,032	735	n/a	n/a	n/a	n/a
2015	Tier 1	925	582	n/a	n/a	n/a*	n/a*
	Tier 2	1,055	714	n/a	n/a	n/a	n/a

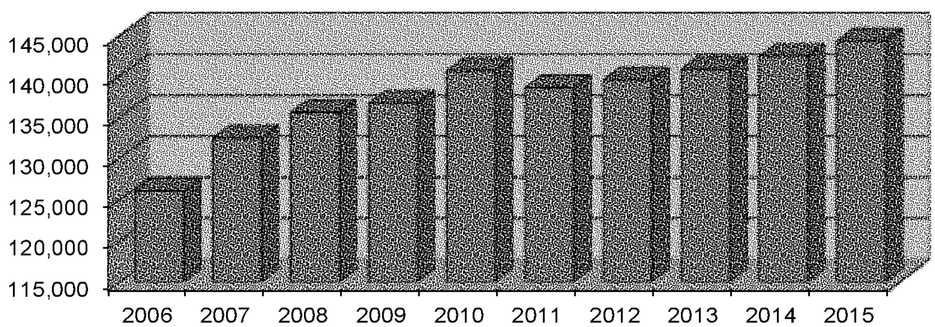
Notes:
1. The Interim Agricultural Water program was discontinued after 2012.
* MWD is continuing discussions with member agencies on the replenishment program.

Source: Metropolitan Water District of Southern California (MWD)

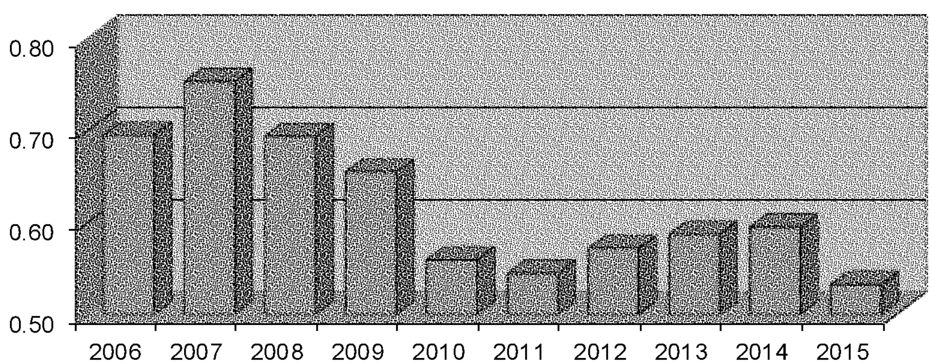
ANNUAL DOMESTIC CONSUMPTION (AF)
LAST TEN FISCAL YEARS

Fiscal Year	Usage (AF)	Active Accounts[1]	Average AF per Account
2006	87,488	125,988	0.69
2007	99,658	132,396	0.75
2008	93,956	135,522	0.69
2009	89,448	136,689	0.65
2010	78,621	140,615	0.56
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53

Number of Active Accounts



Average AF /Account



Notes:

Amounts exclude wholesale accounts.

Several factors may impact fluctuations in the average AF per account each year including conservation efforts, the level of bank-owned homes relating to the economic downturn, and changes in weather patterns.

The decrease in average AF per account for beginning 2008 is mainly due to lower usage relating to conservation efforts and cooler weather patterns..

The increase for 2013 and 2014 is mainly due to increased usage relating to warmer weather patterns.

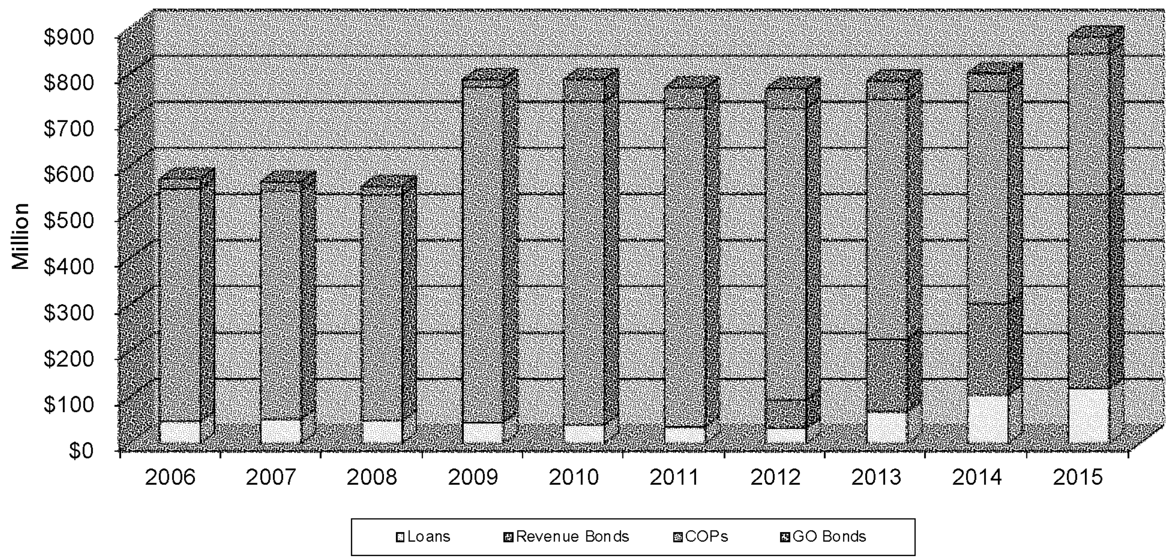
1. Amounts for all years have been updated due to availability of more precise data.

Source: Eastern Municipal Water District

RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

* See Debt Footnotes for dollar amounts

Fiscal Year	Loans[1]	Revenue Bonds[2]	Certificates of Participation[2,3,4]	General Obligation Bonds[4,5]	Total	Percentage of Personal Income[6]	Debt per Capita[7]
2006	48,103,473	-	502,990,000	21,675,000	572,768,473	1.11%	862
2007	52,874,716	-	493,190,000	19,945,000	566,009,716	1.01%	814
2008	49,630,496	-	488,460,000	18,140,000	556,230,496	0.91%	777
2009	45,407,198	-	726,270,000	16,260,000	787,937,198	1.23%	1,086
2010	40,279,228	-	700,311,094	47,672,284	788,262,606	1.21%	1,068
2011	35,818,082	-	689,723,765	45,481,394	771,023,241	1.22%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	768,475,959	1.18%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	785,686,425	1.13%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	801,877,685	1.11%	1,022
2015	119,352,359	420,407,711	305,016,306	35,896,296	880,672,672	1.15%	1,108



Notes:

Details regarding the District's outstanding debt can be found in the Note 4 to the basic financial statements.

See the schedule of Demographic and Economic Statistics for personal income and population data.

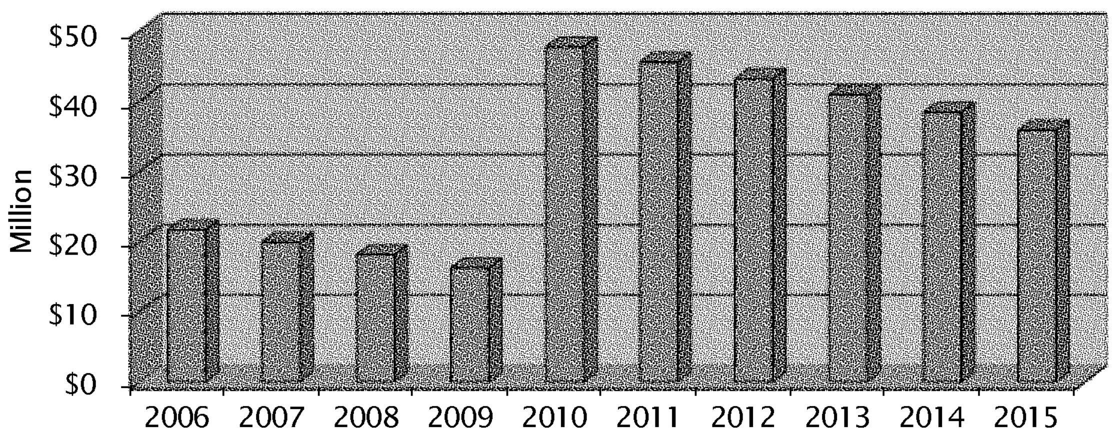
1. The $38 million construction advance for the SCATT project converted to a loan in 2013. In 2014, the $44 million construction advance for the APAD project converted to a loan.
2. The District issued $56 million of Refunding Revenue Bonds in 2012. With the added premium and reserve funds, the issuance of these bonds refunded $62 million of COPs. In 2013, the District issued $104.6 million of Refunding Revenue Bonds which refunded $104.6 million of COPs. The District issued $49 million of Refunding Revenue Bonds in 2014. In 2015, the district refunded $149.9 million of COPS with the issuance of Refunding Revenue Bonds. The district also issued $74.4 million Revenue Bonds in 2015.
3. The District issued over $160 million of new COPs in 2006 and another $240 million in 2010.
4. Beginning 2010, amounts shown include net debt premium/discount and deferred refunding charges, if applicable. Beginning 2012, deferred charges on debt refundings are excluded and shown as a separate line item in the financial statements.
5. The District issued $32 million of new GO Bonds in 2009.
6. Based upon Riverside County personal income amounts. The District is located in the County of Riverside. See the personal income amounts on the Demographic and Economic Statistics schedule.
7. Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds[1,2]	Assessed Value[3]	Percentage of Assessed Value	Debt per Capita[4]
2006	21,675,000	45,799,534,361	0.05%	33
2007	19,945,000	57,857,155,353	0.03%	29
2008	18,140,000	68,127,605,656	0.03%	25
2009	16,260,000	67,617,348,347	0.02%	22
2010	47,672,284	56,743,387,948	0.08%	65
2011	45,481,394	54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53
2014	38,446,800	55,926,804,094	0.07%	49
2015	35,896,296	61,313,471,497	0.06%	45

Total Bonds Outstanding



Notes:

Details regarding the District's outstanding debt can be found in Note 5 to the basic financial statements.

See the schedule of Demographic and Economic Statistics for population data.

1. The District issued $32 million of new GO bonds in 2010.
2. Beginning 2010, amounts shown include net bond premium/discount.
3. Bonds are issued by improvement district, but the amounts shown are for the District's entire service area.
4. Based upon approximate population of the District's entire service area. See the Demographic and Economic Statistics schedule for amounts.

Source: Eastern Municipal Water District

PARITY & SUBORDINATE DEBT SERVICE COVERAGE
FISCAL YEARS 2006 –2015

	2006	2007	2008	2009[1]	2010	2011	2012	2013	2014	2015
OPERATING REVENUES:										
Water sales	$77,611,474	$92,679,789	$94,135,642	$ 103,013,429	$ 102,747,031	$ 102,479,984	$ 104,741,242	$ 110,468,195	$ 122,724,175	$ 117,295,152
Sewer service sales	45,462,646	50,318,414	54,408,172	58,889,788	61,885,298	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505
Recycled water	1,944,434	2,748,328	2,564,656	3,722,130	4,052,665	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763
Total operating revenues	125,018,554	145,746,531	151,108,470	165,625,347	168,684,994	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420
OPERATING EXPENSES:										
Water purchases	36,817,458	43,866,732	41,653,430	41,318,803	46,936,179	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009
Water operations	29,030,238	35,332,561	38,447,533	40,834,689	39,967,447	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510
Sewer operations	37,351,240	41,783,797	45,047,856	45,909,954	45,123,786	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706
Other Post Employment Benefits (OPEB) Contribution[2]	-	-	-	-	-	-	2,620,589	5,740,000	6,123,000	8,568,000
General & administrative	21,520,070	25,292,047	30,138,792	27,471,196	30,256,670	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026
Total operating expenses	124,719,006	146,275,137	155,287,611	155,534,642	162,284,082	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251
OPERATING INCOME (LOSS)	299,548	(528,606)	(4,179,141)	10,090,705	6,400,912	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169
NON-OPERATING REVENUES:										
Property taxes - general purpose	11,213,568	31,293,863	34,528,767	33,149,232	29,474,227	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713
Standby charges	4,518,411	4,667,297	4,868,154	5,015,076	5,246,008	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466
Water and sewer connection fees	99,485,272	52,894,363	30,706,687	17,789,045	13,010,929	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625
Interest income[3]	13,545,983	28,899,522	20,128,848	18,706,820	16,681,744	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643
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
Other income/(expense)	7,088,624	4,093,851	8,812,367	1,767,759	487,672	1,727,067	(4,563,952)	2,967,319	947,126	829,006
Total non-operating revenues	135,851,858	121,848,896	110,306,819	82,894,750	70,964,157	67,799,240	70,120,356	73,198,876	73,207,160	72,638,836
Net Water and Sewer Revenues for Debt Coverage	136,151,406	121,320,290	106,127,678	92,985,455	77,365,069	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004
PARITY OBLIGATION DEBT SERVICE:										
Parity Obligation Payments (COP/Bonds)	27,374,817	32,005,400	28,708,962	34,779,234	32,958,765	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369
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	27,374,817	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262
PARITY OBLIGATION DEBT SERVICE COVERAGE	5.0	3.8	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.5
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	108,776,589	89,314,890	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	50,142,743
SUBORDINATE OBLIGATION DEBT SERVICE	-	-	-	-	-	-	-	-	-	2,917,542
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	NA	NA	NA	NA	NA	NA	NA	NA	NA	17.2
REMAINING REVENUES	108,776,589	89,314,890	77,418,716	53,131,942	38,605,554	37,274,868	34,543,028	41,059,379	44,400,023	47,225,200
TOTAL DEBT SERVICE	27,374,817	32,005,400	28,708,962	39,853,513	38,759,515	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804
ALL-IN DEBT SERVICE COVERAGE	5.0	3.8	3.7	2.3	2.0	2.0	1.8	2.0	2.1	2.3

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 is seperated from Water and Sewer operating expense. Total Annual OPEB Cost was $11,505,000 and $15,286,000 in FY 2012 and FY 2013 respectively. See Note 9.
3. Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.
4. 2011, 2012, and 2013 COP/Bond interest expense amounts include $8,713,038 , $1,323,083, and $2,781,718 of capitalized construction period interest, respectively. See Note 15 to the basic financial statements.

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS

Calendar Year	Population[1]	Personal Income[2] (thousands of $)	Per Capita Personal Income[2]	Unemployment Rate[2]
2005	664,807	51,612,837	27,801	5.4%
2006	695,209	55,892,377	28,933	5.0%
2007	715,664	61,110,773	30,368	6.0%
2008	725,610	64,194,014	30,934	8.5%
2009	737,868	65,140,132	30,876	13.4%
2010	760,128	63,652,627	29,651	14.7%
2011	768,264	65,219,337	29,612	13.6%
2012	776,986	69,757,415	31,196	12.2%
2013	784,834	73,685,111	32,534	10.3%
2014	794,790	76,289,477	33,278	8.2%

Notes: 1. Data is for the District's service area. Amounts for prior years are restated with the most recent available information.
2. Data is for the County of Riverside. The District is located within the County. Amounts for prior years are restated for most recent available information.

Sources: State of California Employment Development Department
State of California Department of Finance
U.S. Department of Commerce, Bureau of Economic Analysis

PRINCIPAL EMPLOYERS
FISCAL YEAR ENDED JUNE 30, 2015

Employer	No. of Employees	Percentage of Total Employment
County of Riverside	21,198	2.3%
March Air Reserve Base	8,500	0.9%
Stater Brothers Markets	6,900	0.7%
Wal-Mart	6,550	0.7%
University of California, Riverside	5,768	0.6%
Kaiser Permanente Riverside Medical Ctr	5,300	0.6%
Corona-Norco Unified School District	4,932	0.5%
Pechanga Resort & Casino	4,000	0.4%
Riverside Unified School District	3,871	0.4%
Hemet Unified School District	3,400	0.4%
Total	70,419	7.6%
Total Employment	928,200	

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

EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	2006	2007	2008	2009	2010	2011	2012	2013[5]	2014	2015[6]
Operations and Maintenance Division										
Water Operations and Distribution	60	57	66	63	63	64	64	65	66	61
Water Reclamation	75	76	82	82	87	90	90	86	87	88
Assets & Facilty Management (formerly Maintenance Services)	19	20	20	22	17	17	17	15	15	22
Auto Shop and Fabrication Shop (reassigned)	14	14	14	13	14	16	15	16	15	–
Wastewater Collection	13	15	15	14	15	15	13	14	14	15
Mechanical Services (includes Fab Shop)	26	27	27	27	30	30	30	28	29	31
Electrical and Controls	20	20	21	22	21	22	23	24	24	23
Pipeline Maintenance (formerly included Building & Grounds)	36	37	37	37	35	37	34	34	34	22
Total Operations & Maintenance Division	263	266	282	280	282	291	286	282	284	262
Engineering Division										
General Engineering[1]	61	52	56	57	55	53	52	43	44	46
Construction Management and Inspections	36	44	39	40	38	39	39	35	33	29
New Business Development[1]	20	34	28	25	25	26	20	17	18	19
Total Engineering Division	117	130	123	122	118	118	111	95	95	94
Planning and Resources Division										
Planning and Resources[2,3]	12	13	17	19	19	19	20	20	19	20
Environmental and Regulatory Compliance	8	9	7	8	8	9	9	9	10	11
Water Quality and Laboratory	17	18	15	15	14	15	15	14	14	12
Source Control	12	10	10	10	8	9	9	9	10	10
Total Planning and Resources Division	49	50	49	52	49	52	53	52	53	53
Executive and Administration										
Executive and Administration	8	8	10	10	10	10	11	12	12	13
Public and Governmental Affairs[4]	3	3	3	2	3	3	11	11	11	12
Human Resources (formerly included Risk Management)	12	12	13	13	13	13	13	11	12	8
Safety/Risk and Emergency Management	–	–	–	–	–	–	–	–	–	4
Billing/Customer Service	41	47	49	49	60	62	58	55	53	56
Meter Reading	24	25	25	25	24	24	24	21	19	16
Finance and Accounting	18	18	20	21	21	22	26	22	22	22
Information Systems	37	35	33	33	34	33	34	33	31	30
Purchasing, Warehouse and Records Management	28	28	28	29	26	27	30	28	27	28
Fleet Services (formerly Auto Shop)	–	–	–	–	–	–	–	–	–	11
Community Involvement[2,4]	10	13	9	9	9	8	–	–	–	–
Total Executive and Administration	181	189	190	191	200	202	207	193	187	200
Total Filled Positions End of Year	610	635	644	645	649	663	657	622	619	609
Total Authorized Positions Start of Year	Not Available	Not Available	670	667	676	690	667	636	633	629
Change in Authorized Positions from Prior Year	Not Available	Not Available	Not Available	(3)	9	14	(23)	(31)	(3)	(4)
Number of Vacant Positions as of June 30	Not Available	Not Available	26	22	27	27	10	13	10	20
Vacancy Rate as of June 30			3.9%	3.3%	4.0%	3.9%	1.5%	2.0%	1.6%	3.2%

Notes:

All directors and managers are included with their divisions.

Temporary, contract and summer help employees are not included.

1. The General Engineering and New Business Development departments were reorganized in 2007. The General Engineering department was reorganized again in 2012.
2. The Conservation work group was moved from Community Involvement to Planning and Resources in 2008.
3. The Planning and Resources department was reorganized in 2012 (formerly Water Resources Development and Management).
4. Community Involvement was restructured into Public and Governmental Affairs in 2012.
5. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30, 2012.
6. Organizational changes in March 2015 affected all divisions and eliminated 3 vacant positions.

Source: Eastern Municipal Water District

OPERATING AND CAPITAL INDICATORS
LAST TEN FISCAL YEARS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
POTABLE WATER SYSTEM										
Miles of pipeline:										
transmission and distribution:[1]	2,345	2,442	2,437	2,444	2,421	2,428	2,430	2,443	2,448	2,463
as-built	1,817	1,944	2,038	2,157	2,260	2,280	2,296	2,366	2,376	2,391
construction in progress	528	498	399	287	161	148	134	77	72	72
Number of storage tanks[2]	78	79	78	77	77	77	77	77	77	77
Maximum storage capacity (million gallons)	193	193	193	193	193	191	191	191	191	191
Number of active pumping plants	82	83	81	84	84	83	83	83	83	83
Number of active wells:										
domestic	18	18	18	18	18	21	21	18	18	18
desalter[6]	9	7	5	5	7	7	8	7	11	11
Domestic well production capacity:										
gallons per minute	19,747	22,076	21,597	21,806	20,361	22,326	22,285	23,292	23,382	19,299
million gallons per day	28.4	31.8	31.1	31.4	29.3	32.1	32.1	33.5	33.7	27.8
acre feet per year	31,852	35,609	34,836	35,173	32,843	36,013	35,945	37,570	37,715	31,129
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	1	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	11.4	21.4	32.0	32.0	32.0	32.0	32.0	36.0	36.0	36.0
Number of service connections: [7]										
active domestic accounts	123,384	128,506	129,344	131,392	133,810	135,233	136,478	140,653	142,244	144,123
active agriculture accounts	130	129	140	143	146	124	122	131	133	132
SEWER SYSTEM										
Miles of sewer lines:[1,3]	1,750	1,857	1,721	1,729	1,727	1,736	1,756	1,780	1,799	1,813
as-built	1,218	1,335	1,407	1,539	1,607	1,626	1,639	1,725	1,735	1,749
construction in progress	532	522	314	190	120	110	117	55	64	64
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD)[4]	56	56	56	60	60	60	60	68	68	70
Average million gallons per day treated	44.8	46.0	46.2	45.2	45.0	46.0	45.0	44.8	44.9	44.8
Percentage of capacity utilized	80%	82%	82%	75%	75%	77%	75%	66%	66%	64%
Number of active lift stations	46	46	46	46	46	46	47	48	48	47
RECYCLED WATER SYSTEM										
Miles of pipeline:										
transmission and distribution:[1]	174	192	201	202	199	202	206	213	215	219
as-built	149	156	165	172	178	179	186	196	198	202
construction in progress	25	36	36	30	21	23	20	17	17	17
Number of active pumping facilities	17	17	17	19	20	20	20	21	23	23
Maximum storage capacity (acre feet)[5]	6,571	6,694	6,764	5,776	5,714	5,714	5,721	5,736	6,184	6,448
GENERAL INFORMATION										
Service area (annexed property):										
acres	346,337	346,425	346,449	346,691	346,732	346,732	346,732	346,745	346,745	346,745
square miles	541.2	541.3	541.3	541.7	541.8	541.8	541.8	541.8	541.8	541.8
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	9.80	9.98	10.05	10.20	10.47	10.84	11.39	11.31	12.11	12.50

Notes:

1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
2. Potable water storage tanks and capacity decreased in 2008 and 2009 due to conversion to recycled water.
3. Miles of sewer lines decreased in 2008 because the District transferred sewer lines to the City of San Jacinto. Decrease is reflected in each as-built amount.
4. The Sun City RWRF (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRF expansion to 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

CUSTOMER ACCOUNT WRITE OFFS
AS A PERCENTAGE OF SALES
LAST TEN FISCAL YEARS

Fiscal Year	Retail Sales	Write Offs	% of Sales
2006	103,371,554	384,329	0.4%
2007	121,769,923	724,045	0.6%
2008	126,144,814	1,155,769	0.9%
2009	139,863,262	1,386,075	1.0%
2010	142,354,003	1,035,076	0.7%
2011	143,427,078	734,381	0.5%
2012	149,580,286	703,666	0.5%
2013	159,559,632	717,146	0.4%
2014	170,496,733	851,419	0.5%
2015	169,744,235	823,650	0.5%
Total	$1,426,311,520	$ 8,515,556	0.6%

Note: Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

BAD DEBT RESERVES AS A PERCENTAGE OF ACCOUNTS RECEIVABLE BALANCE LAST TEN FISCAL YEARS

Fiscal Year	Year End A/R Balance	Reserves	% of A/R
2006	7,350,203	187,390	2.5%
2007	9,278,477	368,961	4.0%
2008	9,375,405	690,461	7.4%
2009	10,377,183	838,543	8.1%
2010	9,603,615	678,848	7.1%
2011	11,170,339	610,537	5.5%
2012	13,072,905	676,182	5.2%
2013	14,195,028	842,850	5.9%
2014	13,805,842	850,608	6.2%
2015	9,916,469	609,075	6.1%

Note: Reserves equal accounts over 60 days.

Source: Eastern Municipal Water District

Eastern Municipal Water District
2270 Trumble Road
Perris, CA 92570
(951) 928-3777
www.emwd.org

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 the Master Resolution as defined in the front portion of this Official Statement.

Maximum Annual Debt Service. The term "Maximum Annual Debt Service" means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in paragraph (e) under the caption "Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations") with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Monthly Accrued Debt Service. The term "Monthly Accrued Debt Service" means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts and Other Parity Obligations accrued and to accrue to the end of such month.

Net Water and Sewer Revenues. The term "Net Water and Sewer Revenues" means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

Obligation. The term "Obligation" means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Water and Sewer System; (b) the liability of the District under any lease or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Opinion of Counsel. The term "Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

Option Bonds. The term "Option Bonds" means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates. The term "Option Certificates" means any certificates of participation in Installment Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations. The term "Option Parity Obligations" means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligations. The term "Other Parity Obligations" means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Other Parity Obligation Payments. The term "Other Parity Obligation Payments" means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Dates. The term "Other Parity Obligation Payment Dates" means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Outstanding. The term "Outstanding" means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments. The term "Parity Obligation Payments" means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations. The term "Parity Obligations" means all Obligations, the payments of which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date. The term "Principal Payment Date" means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

Project. The term "Project" means a specified list of any additions, betterment, extensions or improvements to the Water and Sewer System.

Refunding Parity Obligations. The term "Refunding Parity Obligations" means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement. The term "Reimbursement Agreement" means an agreement between the District and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water and Sewer Revenues on a parity with all Other Parity Obligations.

Reimbursement Payments. The term "Reimbursement Payments" means amount payable by the District as compensation or reimbursement for draws or the right to make a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payment or Installment Payments or Other Parity Obligation Payment in accordance with any Reimbursement Agreement.

Short Term. The term "Short-Term" when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments. The term "Subordinate Obligation Payments" means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations. The term "Subordinate Obligations" means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Water and Sewer Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Parity Obligation Payments.

Trust Agreement. The term "Trust Agreement" means any resolution, indenture or trust agreement providing for the issuance of Bonds or certificates of participation or any Other Parity Obligation.

Valuation Date. The term "Valuation Date" means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations. The term "Variable Rate Parity Obligations" means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

Water and Sewer Revenues. The term "Water and Sewer Revenues" means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Service. The term "Water and Sewer Service" means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term "Water and Sewer System" means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

ESTABLISHMENT OF FUNDS

The District establishes and agrees to maintain, so long as any Parity Obligations or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water and Sewer Revenue Fund, an Operating Fund, an Installment Payment Fund, an Operating Reserve Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the District. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

DEPOSITS AND WITHDRAWALS FROM RATE STABILIZATION FUND

From time to time the District may deposit in the Rate Stabilization Fund from Current Water and Sewer Revenues such amount as the District shall determine. All amounts transferred by the District from the Rate Stabilization Fund to the Water and Sewer Revenue Fund shall be used by the District solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water and Sewer Revenues.

USE OF OTHER FUNDS

The District may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations.

The District may withdraw amounts from the Subordinate Obligation Payment Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at the times and in the amounts required by applicable Subordinate Obligations or resolutions, trust agreements or indentures securing such Subordinate Obligations.

The District may withdraw money in the General Reserve Fund for any lawful purpose of the District, except to make transfers to the Rate Stabilization Fund.

The District may withdraw amounts from the Operating Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs.

The District may withdraw amounts from the Operating Reserve Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs to the extent sufficient funds are not otherwise available within the Operating Fund for such purposes. If at any time the amount on deposit in the Operating Reserve Fund is in excess of 1/4 of the Maintenance and Operation Costs as set forth in the then current annual budget of the District, the District may transfer such excess to the General Reserve Fund.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Installment Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Net Water and Sewer Revenues on a parity with the 1991 Installment Sale Agreement and all Other Parity Obligations; provided:

a. The District shall file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

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

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

c. Long-Term Parity Obligations may be incurred provided that one of the following tests is satisfied:

1. the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; or

2. (A) the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking in to account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred and (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; and

(B) taking into account the matters listed in clauses (i), (iii) and (iv) of paragraph (A) above, plus the then proposed Long-Term Parity Obligations, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

d. Completion Parity Obligations may be incurred without satisfying any of the tests described in the Master Resolution.

e. Refunding Parity Obligations may be incurred provided that the report or opinions set forth in paragraph (c) above shall be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, would not be increased by more than 5%; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph (e) only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (1) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public account as sufficient for such purpose; provided that notice of such redemption shall have been given or arrangements shall have been made therefor, or waiver of such notice shall have been received by the District.

f. Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this subsection does not exceed fifteen percent (15%) of the Net Water and Sewer Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations shall be reduced to an aggregate Outstanding principal amount not exceeding five percent (5%) of the Net Water and Sewer Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this subsection shall be deemed incurred pursuant to paragraph (c) above (and shall no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District shall be delivered to each Trustee pursuant to paragraph (c) above, which Certificate shall include such Parity Obligations.

g. Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there shall be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by either part (1) of paragraph (c) above or part (2) of paragraph (c) above demonstrating that all requirements of either part (1) of paragraph (c) above or part (2) of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion shall be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but shall not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraphs (e) or (g) above, the reports or opinions set forth in part (2) of paragraph (c) above need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (d) or (f) above.

h. In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Options Certificates or other Option Parity Obligations shall not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations shall be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

i. Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and this conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may by its terms be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with the trustee under each Trust Agreement. If such a Certificate of the District is not filed with the trustee under each Trust Agreement, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

j. In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the "Credit Enhancers") shall not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations shall be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

OTHER OBLIGATIONS

a. Amounts to be paid by the District with respect to any Maintenance and Operation Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is entered into the District shall deliver to the trustee under each Trust Agreement a Certificate of the District to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the District's ability to comply with its rate covenant (see, "The Certificates – Rate Covenant" in the front portion of the Official Statement) during the next five Fiscal Years or five Fiscal Years beyond the commercial operation date of the Project being financed with such Obligation, whichever is later, and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If the amounts to be paid by the District for a Maintenance and Operation Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred, the District demonstrates compliance with the tests described above under "Additional Bonds and Contracts and Other Parity Obligations," in which event such amounts may be paid from the Installment Payment Fund.

b. Subordinated Obligations may be incurred without meeting any of the tests described above under "Additional Bonds and Contracts and Other Parity Obligations."

ADDITIONAL COVENANTS OF THE DISTRICT

Against Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the Water and Sewer System and will keep the Water and Sewer System free of any and all liens against any portion of the Water and Sewer System. In the event any such lien attaches to or is filed against any portion of the Water and Sewer System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water and Sewer System or any part thereof essential to the proper operation of the Water and Sewer System or to the maintenance of the Net Water and Sewer Revenues, and will not enter into any agreement or lease which would impair the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Water and Sewer Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or Other Parity Obligations with respect to the Net Water and Sewer Revenues or the operation of the Water and Sewer System; provided, that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water and Sewer Revenues below the requirements of the District's rate covenant.

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

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on an Subordinate Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to each Trustee.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water and Sewer System and all other contracts affecting or involving the Water and Sewer System to the extent that the District is a party thereto.

No Superior Liens. The District will not create or allow any lien or payment from the Net Water and Sewer Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligation.

Insurance. The District will procure and maintain such insurance relating to the Water and Sewer System which it shall deem advisable or necessary (based on the annual written report and approval of an independent insurance consultant) to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water and Sewer System; provided, the District shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided further, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with the facilities, properties, structures and works similar to the Water and Sewer System.

ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

a. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water and Sewer System, which records shall be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

b. The District will prepare and file with each Trustee annually within one hundred and eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1991):

(1) financial statement of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statement stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water and Sewer System as of the close of such Fiscal year, including the names of the insurers which have issued the policies, the amounts thereof and the property or risks covered thereby and a copy of the current annual report of the District's independent insurance consultant.

c. The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable detail the result of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facility, properties, structures or works of the District and the insurance therein being maintained. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirement of any governmental authority relative to the operation of the Water and Sewer System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water and Sewer Service and will not permit any part of the Water and Sewer System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any, city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water and Sewer Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water and Sewer System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water and Sewer System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed component of the Water System or applied to the cancellation of Parity Obligations.

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.

Authorized Denominations. The term "Authorized Denominations" means $5,000 or any integral multiple thereof.

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.

Beneficial Owner. The term "Beneficial Owner" means the actual purchaser of a 2016A 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.

Bonds. The term "Bonds" means the 2016A Bonds, the 2015A Bonds, the 2014A Bonds, the 2014B Bonds, the 2014C Bonds and all other revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the 2016A 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 2016A Bonds and ending on July 1, 2016, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2016A 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 (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 2016A 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 2016A 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 2008C Swap, the 2014C Swap, the Liquidity Facilities, the 2015B Installment Purchase Agreement and all other contracts of the District previously or later authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with the 2016A 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.

Corporation. The term "Corporation" means the Eastern Municipal Water District Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State.

Current Water and Sewer Revenues. The term "Current Water and Sewer Revenues" means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including: (i) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund; (ii) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Payment Fund or any Bond or Contract or Other Parity Reserve Fund (as all of such terms are defined in the Master Resolution and for so long as such funds are operative) or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a resolution, indenture or trust agreement providing for the issuance of Parity Obligations, Bonds or Contracts to the extent that such income is required to be available to make payments on Parity Obligations, Bonds or Contracts or is required to be deposited in the Water and Sewer Revenue Fund; and (iii) benefit assessments and any proceeds of taxes to the extent that the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations or Subordinate

Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service. The term "Debt Service" means, for any period of calculation, the sum of: (i) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); (ii) those portions of the principal amount of all outstanding serial Bonds maturing in such period; (iii) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; (iv) those obligations under the Contracts required to be paid by the District during such period, (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program), including but not limited to certain regularly scheduled payments made pursuant to the 2008C Swap, the 2014C Swap and any other Contract which is an interest rate swap agreement to the extent that such payments are due and payable; and (v) so long as any Liquidity Facility is in effect, the principal amount of any amounts owing thereunder, with interest thereon as provided in such Liquidity Facility; but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts; provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest: (I) for periods when the actual interest rate can be determined, at the actual interest rate; and (II) for periods when the actual interest rate cannot be determined: (A) if interest on such Bonds or Contracts has accrued for at least 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; 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.

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 2016A Bonds.

District. The term "District" means Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

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 a S&P's 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.

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 April 1, 2016, by and between the District and the Trustee, pursuant to which the 2016A 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 Payment Date. The term "Interest Payment Date" means July 1, 2016 and each January 1 and July 1 thereafter.

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 2016A 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 2016A 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 Facilities. The term "Liquidity Facilities" means the standby bond purchase agreements, lines of credit, loans, guaranties or similar agreements issued to provide liquidity support to pay the purchase price of the 2015A Bonds, the 2014C Bonds, the 2014B Bonds and the 2014A Bonds or any other Bonds or Contracts tendered for purchase in accordance with the provisions thereof.

Maintenance and Operation Costs. The term "Maintenance and Operation Costs" means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, Bonds or Contracts, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, Bonds or Contracts, fees and expenses of independent certified public accountants and amounts due to Liquidity Facility providers not constituting principal or interest; but excluding in all cases: (i) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts; (ii) interest expense; (iii) non-cash expenses attributable to pension plans, other retirement accounts and other post-employment benefits; and (iv) amounts paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes to the extent that such ad valorem property taxes do not constitute Water and Sewer Revenues).

Maintenance and Operation Obligation. The term "Maintenance and Operation Obligation" means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operation Costs.

Master Resolution. The term "Master Resolution" means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, and as it may be from time to time further modified, amended or supplemented.

Minimum Rating Requirement. The term "Minimum Rating Requirement" means the rating requirement 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, except that with respect to presentation of 2016A 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 and the Trustee 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 2016A Bonds.

Outstanding. The term "Outstanding," when used as of any particular time with reference to 2016A Bonds, means (subject to the provisions of the Indenture) all 2016A Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2016A Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2016A Bonds with respect to which all liability of the District has been discharged in accordance with the Indenture, including 2016A Bonds (or portions thereof) described therein; and (iii) 2016A Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2016A Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2016A Bond Owner. The term "Owner" or "2016A Bond Owner," whenever used in the Indenture with respect to a 2016A Bond, means the person in whose name the ownership of such 2016A Bond 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 comply 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: (i) the District's Refunding Water and Sewer Revenue Bonds, Series 2013A; (ii) the District's Refunding Water and Sewer Revenue Bonds, Series 2012A; (iii) the District's Refunding Water and Sewer Revenue Bonds, Series 2011A; (iv) the 2008C Installment Sale Agreement, dated as of June 1, 2008, by and between the District and the Corporation, as amended; (v) the 2008H Installment Sale Agreement, dated as of August 1, 2008, by and between the District and the Corporation; (vi) the Third Amendment to 1991A Installment Sale Agreement, dated as of May 1, 2007, by and between the District and the Corporation; and (vii) the Parity State Loans.

Parity State Loans. The term "Parity State Loans" means, collectively: (i) Water Conservation Construction Loan Contract No. E64010, dated May 25, 2000, by and between the District and DWR, relating to the Sun City Pipeline Replacement Project, as amended by Amendment A-1 thereto dated October 28, 2002, in the original principal amount of approximately $3,150,000; (ii) Water Conservation Construction Loan Contract No. E65002, dated May 25, 2000, by and between the District and DWR, relating to the Sun City Pipeline Replacement Project, in the original principal amount of approximately $2,000,000; (iii) Safe Drinking Water State Revolving Fund Loan Contract No. SRF02LMX101, dated March 3, 2005, by and between the District and DWR, relating to the Hemet Water Filtration Plant (Project No. 3310009-52), in the original principal amount of approximately $42,098,388; (iv) State Revolving Fund Loan Contract No. 08-845-550, dated June 23, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Secondary Clarifier and Tertiary Treatment Project (Project No. C-06-5100-110), in the original approved principal amount of approximately $38,362,890; (v) State Revolving Fund Loan Contract No. 09-809-550, dated September 15, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Acid Phase Anaerobic Digestion Project (Project No. C 06-5311-110), as amended by Amendment No. 1 thereto, dated January 29, 2010, in the original approved principal amount of approximately $43,546,128; (vi) State Revolving Fund Loan Contract No. 10-804-550, dated March 23, 2011, by and between the District and SWRCB, relating to the San Jacinto Valley Regional Water Reclamation Facility Tertiary Treatment Upgrade and Plan 2 Facilities Project (Project No. C-06-5159-110), in the original approved principal amount of approximately $145,000,000; (vii) State Revolving Fund Loan Contract No. 10-839-550, by and between the District and SWRCB, relating to the Temecula Valley Regional Water Reclamation Facility 18 MGD Reliable Capacity Upgrade Project (Project No. C-06-5312-110), as amended by Amendment No. 1, in the original approved principal amount of approximately $18,422,420; (viii) State Revolving Fund Loan Contract No. 11-835-550, by and between the District and SWRCB, relating to the Enchanted Heights Sewer System Project (Project No. C-06-7203-110), in the original approved principal amount of approximately $5,000,000; and (ix) any future loans by and between the District and any State entity payable from Net Water and Sewer Revenues on a parity with the Parity Obligations.

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.

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 2016A 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 2016A 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, the 15th day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term "Redemption Date" means the date fixed for an optional redemption prior to maturity of the 2016A Bonds.

Redemption Price. The term "Redemption Price" means, with respect to any 2016A Bond (or portion thereof), the principal amount of such 2016A 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 2016A 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 2016A Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term "Responsible Officer of the Trustee" means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

S&P. The term "S&P" means Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, or any successor thereto.

Securities Depositories. The term "Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

State. The term "State" means the State of California.

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 2016A Bonds executed by the District on the date of issuance of the 2016A Bonds, including any and all exhibits attached thereto.

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, relating to the District's Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C, and all exhibits thereto, as amended or restated from time to time.

2006A Trust Agreement. The term "2006A Trust Agreement" means the 2006A Trust Agreement, dated as of February 1, 2006, by and among the District, the Corporation and the 2006A Trustee, pursuant to which the Refunded Certificates were executed and delivered.

2006A Trustee. The term "2006A Trustee" means MUFG Union Bank, N.A., as trustee under the 2006A Trust Agreement.

2014A Bonds. The term "2014A Bonds" means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014A issued by the District pursuant to the Indenture of Trust, dated as of June 1, 2014, by and between the District and the Trustee.

2014B Bonds. The term "2014B Bonds" means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014B issued by the District and at any time Outstanding pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Bonds. The term "2014C Bonds" means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Swap. The term "2014C Swap" means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated October 31, 2014, and each by and between Wells Fargo Bank, National Association and the District, relating to the 2014C Bonds, 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 relating thereto, dated as of June 1, 2016, 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 and at any time Outstanding pursuant to the Indenture.

2016A Interest Account. The term "2016A Interest Account" means the account by that name in the 2016A Payment Fund established pursuant to the Indenture.

2016A Payment Fund. The term "2016A Payment Fund" means the fund by that name established pursuant to the Indenture.

2016A Principal Account. The term "2016A Principal Account" means the account by that name in the 2016A Payment Fund established pursuant to the Indenture.

2016A Redemption Fund. The term "2016A Redemption Fund" means the fund by that name established pursuant to 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.

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 2016A BONDS

Terms of the 2016A Bonds. The 2016A Bonds will be issued in fully registered form without coupons in Authorized Denominations. Interest on the 2016A 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 of America 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 2016A 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 2016A Bonds will be payable in lawful money of the United States of America.

Transfer of 2016A Bonds. Any 2016A 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 2016A 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 2016A Bond during the period in which the Trustee is selecting 2016A Bonds for redemption and any 2016A Bond that has been selected for redemption.

Whenever any 2016A Bond or 2016A Bonds is surrendered for transfer, the District will execute and the Trustee will authenticate and deliver a new 2016A Bond or 2016A Bonds of Authorized Denomination or Denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2016A 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 2016A Bonds, the Trustee will cancel and destroy the 2016A Bonds it has received.

Exchange of 2016A Bonds. 2016A 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 2016A Bond during the period in which the Trustee is selecting 2016A Bonds for redemption or any 2016A Bond that has been selected for redemption. The Trustee will require the 2016A 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 2016A Bonds, the Trustee will cancel and destroy the 2016A 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 2016A 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 2016A Bonds as provided in the Indenture. The person in whose name any 2016A 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 2016A 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 2016A Bond to the extent of the sum or sums so paid.

2016A Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016A Bond becomes mutilated, the District, at the expense of the Owner of said 2016A Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2016A Bond of like tenor, series and Authorized Denomination in exchange and substitution for the 2016A Bonds so mutilated, but only upon surrender to the Trustee of the 2016A Bond so mutilated. Every mutilated 2016A 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 2016A 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 2016A Bond of like tenor, series and Authorized Denomination in lieu of and in substitution for the 2016A Bond so lost, destroyed or stolen (or if any such 2016A Bond has matured or is about to mature, instead of issuing a substitute 2016A 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 2016A Bond issued under the Indenture and of the expenses which may be incurred by the District and the Trustee in connection therewith. Any 2016A Bond issued under the provisions of the Indenture in lieu of any 2016A Bond alleged to be lost, destroyed or stolen constitutes an original additional contractual obligation on the part of the District whether or not the 2016A 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 2016A Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2016A Bond for a 2016A 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 2016A Bond upon receipt of indemnity satisfactory to the Trustee.

Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2016A Bonds, the District may provide that such 2016A Bonds will be initially issued as book entry 2016A Bonds. If the District elects to deliver any 2016A 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 2016A Bonds in an Authorized Denomination corresponding to that total principal amount of the 2016A Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2016A Bond will be registered in the 2016A Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2016A Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2016A 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 2016A 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 2016A Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2016A Bond Registration Books, of any notice with respect to book entry 2016A Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2016A Bonds to be redeemed in the event that the District redeems the 2016A 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 2016A Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2016A Bond is registered in the 2016A Bond Registration Books as the absolute Owner of such book entry 2016A Bond for the purpose of payment of principal of, premium and interest on such 2016A Bond, for the purpose of giving notices of redemption and other matters with respect to such 2016A Bond, for the purpose of registering transfers with respect to such 2016A Bond and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2016A Bonds, only to or upon the order of the respective Owner, as shown in the 2016A 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 2016A Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2016A Bond Registration Books, may receive a 2016A Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2016A 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 2016A 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 2016A Bonds other than the Owners, as shown on the 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bond for each of the maturity dates of such book entry 2016A 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 2016A Bonds will no longer be restricted to being registered in such 2016A Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2016A 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 2016A 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 the 2016A Bonds and all notices with respect to the 2016A 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 2016A Bonds to Substitute Depository. (i) The 2016A Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2016A 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 2016A Bonds by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new 2016A Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of 2016A 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 2016A Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds will be controlling.

(iv) The District and the Trustee are entitled to treat the person in whose name any 2016A 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 2016A 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 2016A Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2016A Bonds.

<u>Initial Nominee</u>. The 2016A 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 2016A Bonds will be evidenced by one bond for each maturity of the 2016A Bonds. The 2016A 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 2016A Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture.

ISSUANCE OF 2016A BONDS

<u>Validity of 2016A Bonds</u>. The validity of the authorization and issuance of the 2016A 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 2016A 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

<u>Allocation of Net Revenues</u>. There has been established with the Trustee the 2016A 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 2016A Bonds remain unpaid. Except as directed in the Indenture, all moneys for the payment of interest and principal on the 2016A Bonds received by the Trustee pursuant to the Indenture will be promptly deposited by the Trustee upon receipt thereof into the 2016A Payment Fund; except that all moneys received by the Trustee and required thereunder to be deposited in the 2016A Redemption Fund will be promptly deposited therein. All moneys for the payment of interest and principal on the 2016A 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 2016A Interest Account and a 2016A Principal Account within the 2016A Payment Fund.

The Trustee will transfer from the 2016A 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) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the 2016A Interest Account that sum, if any, required to cause the aggregate amount on deposit in the 2016A Interest Account to be at least equal to the amount of interest becoming due and payable on the succeeding Interest Payment Date on all 2016A Bonds then Outstanding. No deposit need be made into the 2016A 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 2016A Bonds then Outstanding.

(b) Not later than the Business Day preceding each Interest Payment Date on which the principal of the 2016A Bonds becomes due and payable under the Indenture, the Trustee will deposit in the 2016A Principal Account that sum, if any, required to cause the aggregate amount on deposit in the 2016A Principal Account to equal the principal amount of the 2016A 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 2016A 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 2016A Bonds then Outstanding.

(c) 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 2016A Interest Account. Except as otherwise provided in the Indenture, all amounts in the 2016A Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2016A Bonds as it becomes due and payable (including accrued interest on any 2016A Bonds purchased prior to maturity pursuant to the Indenture).

Application of 2016A Principal Account. Except as otherwise provided in the Indenture, all amounts in the 2016A Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2016A Bonds at maturity, mandatory sinking fund redemption or purchase; provided, however, that at any time prior to selection for redemption of any such 2016A Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2016A 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 2016A 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 2016A Bonds.

Application of 2016A Redemption Fund. There has been established with the Trustee a special fund designated as the "2016A Redemption Fund." All amounts in the 2016A Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2016A Bonds to be redeemed on any Redemption Date pursuant to the Indenture (other than mandatory redemption payments described therein); provided, however, that at any time prior to selection for redemption of any such 2016A Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2016A 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 2016A 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 2016A Bonds. The 2016A 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 2016A Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it 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. 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 Rebatable Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all the 2016A Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the 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 2016A Bonds and the payments described above being made may be withdrawn by the District and utilized in any manner by the District upon Written Request of the District provided to the Trustee.

(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 2016A Bonds.

Application of Funds and Accounts When No 2016A Bonds are Outstanding. On the date on which all 2016A Bonds are retired under the Indenture or provision made therefor pursuant thereto and after payment of all amounts due the Trustee thereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the 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 2016A Bonds, in strict conformity with the terms of the 2016A 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 2016A Bonds. The District may not directly or indirectly extend or assent to the extension of the maturity of any of the 2016A Bonds or the time of payment of any claims for interest by the purchase of such 2016A Bonds or by any other arrangement, and in case the maturity of any of the 2016A Bonds or the time of payment of any such claims for interest is extended, such 2016A 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 2016A 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 2016A Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2016A 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 2016A Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2016A 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 2016A 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 2016A 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 2016A 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 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) at reasonable hours and under reasonable conditions.

(c) The District will prepare and file with the Trustee annually by no later than February 1 of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2016) 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 2016A 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 2016A Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the 2016A Bonds or of any other moneys or property which would cause the 2016A 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 2016A Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2016A 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 2016A Bonds or take or omit to take any action that would cause the 2016A 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 2016A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2016A Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2016A 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 2016A Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will take no 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 all 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 or any 2016A 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 and every 2016A 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 2016A 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 2016A Bonds or involving the rights of the Trustee or any 2016A Bond Owner under the Indenture; provided that the Trustee or any 2016A 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 2016A 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 2016A 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 2016A Bonds. The District will promptly reimburse any 2016A 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 2016A 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 2016A 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 2016A Bonds (including persons holding 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 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, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2016A 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 2016A Bonds.

Notwithstanding anything contained in the Indenture, the Owners of the 2016A 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.

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 2016A Bonds, the Contracts and the Bonds 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 the principal of and interest then due on the 2016A Bonds (upon presentation of the 2016A 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 2016A 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 2016A 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 2016A 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; and

(c) If there exists any remainder after the foregoing payments, such remainder will be paid to the District.

Trustee to Represent 2016A Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2016A 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 2016A Bonds, subject to the provisions of the Indenture.

2016A Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2016A 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 2016A Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2016A 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

2016A 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 2016A 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 2016A 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 2016A Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2016A 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 2016A Bonds, or to enforce any right under the 2016A Bonds, the Indenture, or applicable law with respect to the 2016A 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 2016A Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the District. Nothing in any provision of the Indenture or in the 2016A Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2016A Bonds to the respective Owners of the 2016A 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 2016A Bonds.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the 2016A Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2016A 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.

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 may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2016A 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.

(c) The Trustee may at any time resign by giving written notice of such resignation to the District and by giving the 2016A 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 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. 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 2016A Bond Owner (on behalf of himself and all other 2016A Bond Owners) may, at the expense of the District, 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 2016A Bonds and to the 2016A 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 2016A 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 2016A 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 2016A Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2016A 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 2016A 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 2016A Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2016A 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 2016A Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default (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 2016A Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements in the Indenture or any of the documents executed in connection with the 2016A 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 2016A 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 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.

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 2016A Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2016A 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.

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 and any 2016A 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 2016A 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 2016A 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 Owners of a majority in aggregate principal amount of all 2016A Bonds then Outstanding, exclusive of 2016A 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 2016A 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 2016A Bond so affected; or (2) reduce the aforesaid percentage of 2016A 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 2016A 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 2016A Bonds then Outstanding. It is not necessary for the consent of the 2016A 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 2016A 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 2016A 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 2016A Bond Owners, 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 2016A 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 2016A 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 2016A 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 and all Owners of 2016A 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 2016A Bonds; Preparation of New 2016A Bonds. 2016A 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 2016A Bonds Outstanding at the time of such execution and presentation of his or her 2016A 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 2016A Bonds. If the Supplemental Indenture so provides, new 2016A 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 2016A Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2016A Bond Owner, for 2016A Bonds then Outstanding, upon surrender for cancellation of such 2016A Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2016A Bonds. The provisions of the Indenture do not prevent any 2016A Bond Owner from accepting any amendment as to the particular 2016A Bonds held by him or her.

DEFEASANCE

Discharge of Indenture. The 2016A 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 2016A 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 2016A Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2016A Bonds then Outstanding.

If the District also pays or causes to be paid all other sums payable under the Indenture by the District, 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 2016A 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 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 2016A Bonds.

Discharge of Liability on 2016A 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 2016A Bonds (whether upon or prior to the maturity or the Redemption Date of such 2016A Bonds), provided that, if such Outstanding 2016A 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 2016A 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 2016A Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2016A 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 2016A 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 2016A Bonds and all unpaid interest thereon to maturity, except that, in the case of 2016A 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 2016A 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 2016A Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2016A 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 2016A Bonds; and (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 2016A 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).

Payment of 2016A 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 2016A Bonds and remaining unclaimed for two years after the principal of all of the 2016A 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 2016A Bonds became due and payable, will be paid 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 2016A Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the 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 2016A 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 2016A 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 2016A Bond Owners. Nothing expressed or implied in the Indenture or in the 2016A Bonds is intended or will be construed to give to any person other than the District, the Trustee and the Owners of the 2016A 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 Trustee and the Owners of the 2016A Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2016A Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2016A Bonds, the Trustee will destroy such 2016A 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 2016A 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 2016A 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 2016A Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2016A Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2016A 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 2016A 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 2016A Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2016A Bond will bind every future Owner of the same 2016A Bond and the Owner of every 2016A 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 2016A Bonds. For the purpose of determining whether the Owners of the requisite aggregate principal amount of 2016A Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2016A 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 2016A 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 2016A Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2016A 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 2016A 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 2016A 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 2016A Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2016A Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2016A Bonds (or portions of 2016A Bonds in the case of registered 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2016A 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) an amendment to the Indenture; and (b) redemption or defeasance of all or a portion of the 2016A Bonds. Notices to S&P will be delivered via electronic mail to the following address: pubfin_structured@standardandpoors.com, and by such other means as requested by S&P.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2016A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

April 5, 2016

Eastern Municipal Water District
2270 Trumble Road
Perris, California 92572-8300

Re: $209,230,000 Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2016A

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 $209,230,000 Refunding Water and Wastewater Revenue Bonds, Series 2016A, dated the date hereof (the "2016A 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 2016A Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2016A Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2016 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee"). The 2016A Bonds mature on the date and in the amount referenced in the Indenture. The 2016A Bonds are dated their date of delivery and bear interest payable at maturity, at the rates per annum referenced in the Indenture. The 2016A 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 2016A 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 2016A Bonds and the Indenture are valid and binding obligations of the District enforceable against the District in accordance with their terms.

2. The obligation of the District to make the payments of principal of and interest on the 2016A 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 (and original issue discount) on the 2016A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax

imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the 2016A Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a 2016A Bond (the first price at which a substantial amount of the 2016A Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2016A Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2016A Bond Owner will increase the 2016A Bond Owner's basis in the 2016A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2016A Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a 2016A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2016A Bond Owner's basis in the applicable 2016A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2016A Bond Owner realizing a taxable gain when a 2016A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016A Bond to the Owner. Purchasers of the 2016A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the 2016A 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 Code that must be satisfied subsequent to the issuance of the 2016A Bonds to assure that such interest (and original issue discount) on the 2016A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A 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 2016A 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 (and original issue discount) on the 2016A Bonds for federal income tax purposes with respect to any 2016A 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 2016A 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 2016A 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 2016A Bonds or other offering material relating to the 2016A Bonds and expressly disclaim any duty to advise the owners of the 2016A Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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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 2016A Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2016A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2016A 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 2016A Bonds. The 2016A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the 2016A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC 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 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016A 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 2016A 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 2016A Bonds, except in the event that use of the book-entry system for the 2016A Bonds is discontinued.

To facilitate subsequent transfers, all 2016A 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 2016A 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 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016A 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 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016A Bond documents. For example, Beneficial Owners of 2016A Bonds may wish to ascertain that the nominee holding the 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A 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 2016A Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2016A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2016A Bonds are transferred by Direct Participants or DTC's records and followed by book-entry credit of tendered 2016A Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2016A 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, 2016A 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, 2016A Bonds will be printed and delivered.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2016A 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 $209,230,000 Refunding Water and Wastewater Revenue Bonds, Series 2016A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2016 (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 February 25, 2016 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 each February 1 following the end of its Fiscal Year (commencing with Fiscal Year 2016) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Comprehensive Annual Financial Report of the District for the prior Fiscal Year, which shall include audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the Comprehensive Annual Financial Report, updated versions of financial information and operating data relating to the District of the type contained in the Official Statement, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

(i) Appendix A under the caption "THE DISTRICT—Debt Structure of the District—Table 4;"

(ii) Appendix A under the caption "WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Table 6;"

(iii) Appendix A under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Production—Tables 7, 8 and 9;"

(iv) Appendix A under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Deliveries—Table 10;"

(v) Appendix A under the caption "WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities—Table 11;"

(vi) Appendix A under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues;"

(vii) Appendix A under the caption "HISTORICAL FINANCIAL OPERATIONS—Non Operating Revenues;" and

(viii) Appendix A under the caption "HISTORICAL OPERATING RESULTS—Table 19."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;

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

3. unscheduled draws on credit enhancements reflecting financial difficulties;

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

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. ratings changes; and

9. bankruptcy, insolvency, receivership or similar proceedings.

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

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

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

2. modifications to the rights of Bond Holders;

3. optional, unscheduled or contingent Bond redemptions;

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

5. non-payment related defaults;

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

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

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

7. Termination of Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% in aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: April 5, 2016

EASTERN MUNICIPAL WATER DISTRICT

By: ______________________________
Its: General Manager