

**\$77,000,000**

**WESTLANDS WATER DISTRICT  
REFUNDING REVENUE BONDS, SERIES 2012A**

**Dated: Date of Issuance****Due: September 1, as set forth on the inside cover**

The 2012 Bonds are being issued to provide funds to refund all of the currently outstanding Westlands Water District Revenue Certificates of Participation, Series 2002A, to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the 2012 Bonds, to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund and to pay costs of issuance of the 2012 Bonds, all as more fully described herein. The 2012 Bonds are being issued pursuant to the Indenture of Trust, dated as of October 1, 2012, by and between the Westlands Water District and Union Bank, N.A., as trustee.

The 2012 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. Purchasers of the 2012 Bonds will not receive securities representing their beneficial ownership in the 2012 Bonds purchased. Interest on the 2012 Bonds is payable on each March 1 and September 1 commencing March 1, 2013, until the maturity thereof. The principal of and interest on the 2012 Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments are to be disbursed to the beneficial owners of the 2012 Bonds through their nominees.

**The 2012 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption, all as more fully described herein.**

The obligation of the District to pay principal of and interest on the 2012 Bonds is a special obligation of the District payable solely from Net Revenues of the District's Water System, consisting of District Revenues remaining after payment of District Operation and Maintenance Costs and from amounts on deposit in certain funds and accounts created under the Indenture. **The obligation of the District to pay principal of and interest on the 2012 Bonds is an irrevocable obligation of the District payable solely from District Net Revenues but does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay principal of and interest on the 2012 Bonds does not constitute a debt of the District, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.**

The obligation of the District to pay principal of and interest on the 2012 Bonds is payable from District Net Revenues on a parity with Parity Payments in the aggregate principal amount of approximately \$131,345,000, as further described herein. The District may incur additional obligations payable from District Net Revenues on a parity with the obligation to pay principal of and interest on the 2012 Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

The scheduled payment of the principal of and interest on the 2012 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the issuance of the 2012 Bonds by ASSURED GUARANTY MUNICIPAL CORP.



*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the 2012 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 on the 2012 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the 2012 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.

---

MATURITY SCHEDULE – See Inside Cover Page

---

*The 2012 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2012 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Ballard Spahr LLP, for the District by its special counsel, Kronick Moskowitz Tiedemann & Girard, for Assured Guaranty Municipal Corp. by its counsel, and for the Trustee by its counsel. It is anticipated that the 2012 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about October 25, 2012.*

**CITIGROUP**

Dated: October 11, 2012

**MATURITY SCHEDULE**

**\$77,000,000**

**WESTLANDS WATER DISTRICT**

**REFUNDING REVENUE BONDS**

**SERIES 2012A**

<b><u>Maturity Date</u></b> <b><u>(September 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>
2013	\$ 2,315,000	2.00%	0.50%
2014	2,260,000	3.00	0.70
2015	2,325,000	3.00	0.86
2016	2,395,000	4.00	1.01
2017	2,490,000	4.00	1.22
2018	2,590,000	4.00	1.46
2019	2,695,000	4.00	1.77
2020	2,800,000	4.00	2.08
2021	2,915,000	5.00	2.42
2022	3,060,000	5.00	2.65
2023	3,215,000	5.00	2.83 <sup>c</sup>
2024	3,375,000	5.00	2.91 <sup>c</sup>
2025	3,545,000	5.00	3.03 <sup>c</sup>
2026	3,720,000	5.00	3.10 <sup>c</sup>
2027	3,905,000	5.00	3.17 <sup>c</sup>
2028	4,100,000	5.00	3.23 <sup>c</sup>
2029	4,305,000	5.00	3.29 <sup>c</sup>
2030	4,525,000	5.00	3.35 <sup>c</sup>
2031	4,745,000	5.00	3.41 <sup>c</sup>
2032	4,985,000	5.00	3.48 <sup>c</sup>

\$10,735,000 5.00% Term Bond due September 1, 2034, Yield 3.55%<sup>c</sup>, Price 111.959%

---

<sup>c</sup> Yield to optional redemption date of September 1, 2022 at par.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2012 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2012 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 a representation of facts.

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

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

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2012 BONDS AT A LEVEL THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2012 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**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 2012 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2012 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the 2012 Bonds or the advisability of investing in the 2012 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this

Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and Appendix F—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2012 Bonds.

**WESTLANDS WATER DISTRICT  
BOARD OF DIRECTORS**

Don Peracchi, President  
Daniel Errotabere, Vice President  
Donald Devine, Director  
Frank Coelho, Jr., Director  
Gary Esajian, Director  
Larry Enos, Director  
Sarah Woolf, Director  
Alan Sano, Director  
Todd Neves, Director

**DISTRICT STAFF**

Thomas W. Birmingham, General Manager  
Bobbie Ormonde, Director of Finance & Administration

**OFFICERS**

Dave Ciapponi, Secretary and Treasurer

**SPECIAL SERVICES**

**General Counsel**

Craig Manson, Esq.

**Bond Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Sacramento, California

**Trustee**

Union Bank, N.A.  
San Francisco, California

**Verification Agent**

Causey Demgen & Moore,  
Denver, Colorado

[THIS PAGE INTENTIONALLY LEFT BLANK]

# TABLE OF CONTENTS

Page

SUMMARY STATEMENT .....	i
INTRODUCTION .....	1
REFUNDING PLAN .....	2
General.....	2
Verification .....	2
THE 2012 BONDS .....	3
General Provisions .....	3
Transfers and Exchanges Upon Termination of Book-Entry Only System .....	3
Redemption of the 2012 Bonds.....	4
Notice of Redemption .....	4
Book-Entry Only System .....	5
WESTLANDS WATER DISTRICT PAYMENT SCHEDULE .....	6
SECURITY FOR THE 2012 BONDS.....	6
Limited Obligations Payable From Net Revenues.....	6
Rate Covenant.....	7
Additional Indebtedness.....	7
Reserve Fund .....	8
ESTIMATED SOURCES AND USES OF FUNDS .....	9
BOND INSURANCE .....	9
Bond Insurance Policy .....	9
Assured Guaranty Municipal Corp. ....	9
THE DISTRICT.....	11
General.....	11
District Powers.....	11
Governance and Management.....	12
Employees.....	13
Employee Benefits .....	13
District Insurance .....	17
Land and Land Use .....	17
District Water Supply.....	18
Cost of CVP Contract Water.....	22
District Water Charges.....	23
Drainage.....	25
Kesterson Cleanup Cost.....	27
Historic Water Usage .....	27
Projected Water Usage.....	28
Historic Revenues and Expenses .....	28
Projected Operating Results.....	30
Investment of District Funds.....	31
Outstanding Obligations .....	31
Future Financings.....	34
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.....	36
Article XIII B.....	36
Proposition 218 .....	36
Proposition 26 .....	38
Future Initiatives .....	38
APPROVAL OF LEGAL PROCEEDINGS.....	38

**TABLE OF CONTENTS**  
**(continued)**

	<i>Page</i>
LITIGATION .....	39
TAX MATTERS.....	39
RATINGS .....	40
UNDERWRITING .....	40
CONTINUING DISCLOSURE UNDERTAKING.....	41
MISCELLANEOUS .....	42
APPENDIX A – WESTLANDS WATER DISTRICT FINANCIAL STATEMENTS .....	A-1
APPENDIX B – DEFINITIONS AND SUMMARY OF THE INDENTURE.....	B-1
APPENDIX C – FORM OF BOND COUNSEL’S OPINION .....	C-1
APPENDIX D – INFORMATION CONCERNING DTC.....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE .....	E-1
APPENDIX F – SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	F-1



## SUMMARY STATEMENT

*This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2012 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.*

**Purpose.** The 2012 Bonds are being issued to provide funds to refund all of the currently outstanding Westlands Water District Revenue Certificates of Participation, Series 2002A, to purchase a municipal bond insurance policy to guarantee the scheduled payment of the principal of and interest on the 2012 Bonds, to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund and to pay costs of issuance of the 2012 Bonds, all as more fully described herein.

**Security for the 2012 Bonds.** The obligation of the District to pay principal of and interest on the 2012 Bonds is a special obligation of the District payable solely from Net Revenues of the District's Water System, consisting of District Revenues remaining after payment of District Operating and Maintenance Costs and from amounts on deposit in certain funds and accounts created under the Indenture. The obligation of the District to pay principal of and interest on the 2012 Bonds is an irrevocable obligation of the District payable solely from District Net Revenues but does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay principal of and interest on the 2012 Bonds does not constitute a debt of the District, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The obligation of the District to pay principal of and interest on the 2012 Bonds is payable from District Net Revenues on a parity with Parity Payments in the aggregate principal amount of approximately \$131,345,000, as further described herein. The District may incur additional obligations payable from District Net Revenues on a parity with the obligation to pay principal of and interest on the 2012 Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

**The Refunding Plan.** A portion of the proceeds of the 2012 Bonds will be transferred to Union Bank, N.A., as escrow agent with respect to the 2002A Certificates, to prepay all of the \$80,035,000 currently outstanding aggregate principal amount of the Westlands Water District Revenue Certificates of Participation, Series 2002A.

**Rate Covenant.** The Indenture requires the District, to the fullest extent permitted by law, to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of the Debt Service payable in such Fiscal Year.

**Additional Contracts and Bonds Tests.** The Indenture permits the District to execute any Contracts or issue any Bonds on a parity with the obligation to pay principal of and interest on the 2012 Bonds, provided that certain conditions are satisfied as herein described.

**Reserve Fund.** A Reserve Fund for the 2012 Bonds is established pursuant to the Indenture in an amount equal to the Reserve Requirement. Assured Guaranty Municipal Corp. has committed to issue, simultaneously with the execution and delivery of the 2012 Bonds, a municipal bond debt service reserve insurance policy in the principal amount of \$5,775,000 for deposit in the Reserve Fund to satisfy the Reserve Requirement.

**Redemption.** The 2012 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption as described herein.

***The District.*** The District is a California water district duly organized and existing under the California Water District Law (codified at Division 13 of the California Water Code) (the “Law”). The District has the powers under the Law to, among other things, provide water service (the “Water Service”) within its water service area. The District is located on the west side of the San Joaquin Valley and includes approximately 614,700 acres in Fresno and Kings Counties of which approximately 568,500 acres are irrigable. The District currently provides agricultural water service to approximately 700 water users through over 3,460 meters and municipal and industrial water to approximately 205 users.

***Insurance.*** The scheduled payment of principal of and interest on the 2012 Bonds will be insured by a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. concurrently with the issuance of the 2012 Bonds. See the caption “BOND INSURANCE.”

**\$77,000,000**  
**WESTLANDS WATER DISTRICT**  
**REFUNDING REVENUE BONDS, SERIES 2012A**

**INTRODUCTION**

This Official Statement, including the cover page, the inside cover page and all appendices hereto, provides certain information concerning the sale and delivery of the Westlands Water District Refunding Revenue Bonds, Series 2012A (the “2012 Bonds”). The 2012 Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2012 (the “Indenture”), by and between the Westlands Water District (the “District”) and Union Bank, N.A., San Francisco, California, as trustee (the “Trustee”). Descriptions and summaries of various documents hereinafter set forth 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 B.

The 2012 Bonds are being issued to provide funds to refund all of the \$80,035,000 currently outstanding aggregate principal amount of the Westlands Water District Revenue Certificates of Participation, Series 2002A (the “2002 Certificates”), as described under the caption “REFUNDING PLAN,” to purchase a municipal bond insurance policy to guarantee the scheduled payment of the principal of and interest on the 2012 Bonds, as further described under the caption “BOND INSURANCE,” to purchase a municipal bond debt service reserve insurance policy (the “Reserve Surety Policy”) for deposit in the Reserve Fund, as further described under the caption “SECURITY FOR THE 2012 BONDS—Reserve Fund,” and to pay costs of issuance of the 2012 Bonds. See the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

The scheduled payment of the principal of and interest on the 2012 Bonds will be insured by a municipal bond insurance policy (the “Policy”) to be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) concurrently with the issuance of the 2012 Bonds. See the caption “BOND INSURANCE.” A specimen of the Policy is set forth in Appendix F.

The 2012 Bonds are limited obligations of the District payable solely from Net Revenues, which consist of Revenues of the District’s Water System remaining after payment of Operation and Maintenance Costs, as such terms are defined in Appendix B. The obligation of the District to pay principal of and interest on the 2012 Bonds is payable from District Net Revenues on a parity with Parity Payments in the aggregate principal amount of approximately \$131,345,000. See the caption “THE DISTRICT—Outstanding Obligations.” The District may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2012 Bonds in the future. See the caption “SECURITY FOR THE 2012 BONDS—Additional Indebtedness.”

The summaries and references to the Indenture and all 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 reference to the full Indenture and each such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Fresno, California and will be available 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 Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2012 Bonds (each, an “Owner”) may obtain a copy of such report, as available, from the Trustee or the District. Additional information regarding the Official Statement may be obtained by contacting the Trustee or Dave Ciapponi, Secretary, Westlands Water District, P.O. Box 6056, Fresno, California 93703, Telephone: (559) 241-6202.

Changes have been made on the cover of and under certain captions in this Official Statement since the Preliminary Official Statement dated October 2, 2012 to reflect information with respect to AGM, the Policy insuring the payment of the principal of and interest on the 2012 Bonds and the Reserve Surety Policy, and to reflect changes to the Indenture to conform to the requirements of AGM. These captions include “INTRODUCTION,” “SECURITY FOR THE 2012 BONDS,” “BOND INSURANCE,” “APPROVAL OF LEGAL PROCEEDINGS,” and “RATINGS,” as well as Appendices B and F. In addition, changes were made under the caption “THE DISTRICT—Governance and Management” to correct the end date of Director Woolf’s term of office.

## **REFUNDING PLAN**

### **General**

The District caused the execution and delivery of the 2002 Certificates, which are currently outstanding in the aggregate principal amount of \$80,035,000, pursuant to a Trust Agreement, dated as of May 1, 2001 (the “2002 Trust Agreement”), by and among the District, the Westlands Water District Financing Corporation (the “Corporation”) and Union Bank, N.A. (formerly known as Union Bank of California, N.A.), as trustee (the “2002 Trustee”). The 2002 Certificates are payable from installment payments under the Installment Purchase Agreement, dated as of May 1, 2001 (the “2002 Installment Purchase Agreement”), by and between the District and the Corporation. The District plans to apply a portion of the proceeds of the 2012 Bonds to refund all outstanding obligations with respect to the 2002 Certificates.

Under an Escrow Agreement, dated as of October 1, 2012 (the “2002 Escrow Agreement”), by and between the District and the 2002 Trustee, the District will deliver a portion of the proceeds of the 2012 Bonds to the 2002 Trustee for deposit in the escrow fund established under the 2002 Escrow Agreement (the “2002 Escrow Fund”). The 2002 Trustee will invest a portion of the amounts deposited in the 2002 Escrow Fund in Federal Securities as set forth in the 2002 Escrow Agreement. From the maturing principal of the Federal Securities and related investment income and any uninvested moneys on deposit in the 2002 Escrow Fund, the 2002 Trustee will pay on November 26, 2012 the principal with respect to the 2002 Certificates plus a prepayment premium of 1% thereon, together with interest accrued with respect thereto to such date, all in accordance with the 2002 Escrow Agreement.

Sufficiency of the deposits in the 2002 Escrow Fund for those purposes will be verified by Causey Demgen & Moore, Denver, Colorado (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2002 Escrow Agreement, the 2002 Certificates will be defeased pursuant to the provisions of the 2002 Installment Purchase Agreement and the 2002 Trust Agreement under which the 2002 Certificates were delivered, as of the date of issuance of the 2012 Bonds.

The portion of the proceeds of the 2012 Bonds deposited with the 2002 Trustee is pledged solely to the payment of the 2002 Certificates and will not be available for the payments of principal of and interest on the 2012 Bonds.

### **Verification**

Upon issuance of the 2012 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 Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the Federal Securities to pay when due all interest and principal with respect to the 2002 Certificates on and prior to the prepayment thereof and to pay the prepayment price of the 2002 Certificates when due; and (b) the computations of yield of the 2012 Bonds and the Federal Securities which support Bond Counsel’s opinion that the interest on the 2012 Bonds is excluded from gross income for federal income tax purposes.

## **THE 2012 BONDS**

### **General Provisions**

The 2012 Bonds will be issued in the aggregate principal amount of \$77,000,000. The 2012 Bonds will be dated as of the date of initial issuance thereof (the “Issuance Date”), will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on each March 1 and September 1 commencing March 1, 2013 (each, an “Interest Payment Date”), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2012 Bonds will be computed on the basis of a 360 day year of twelve 30-day months.

The 2012 Bonds will be issued 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 2012 Bonds. Ownership interests in the 2012 Bonds may be purchased in book-entry form, in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book-Entry Only System” below and Appendix D attached hereto.

In the event that the book-entry only system described below is discontinued, the principal of and redemption premium (if any) on the 2012 Bonds are 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 San Francisco, California (the “Office of the Trustee”). Interest on the 2012 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the “Registration Books”) as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the “Record Date”), such interest to be paid by check or draft of the Trustee, sent by first class mail to the Owner at such Owner’s address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2012 Bonds may, at such Owner’s option, be paid interest by wire transfer of immediately available funds in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest on the 2012 Bonds will be payable in lawful money of the United States of America.

Interest on any 2012 Bond will be payable from the Interest Payment Date preceding the date of issuance thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before February 15, 2013, in which case interest thereon will be payable from the Issuance Date.

### **Transfers and Exchanges Upon Termination of Book-Entry Only System**

In the event that the book-entry system described above is abandoned, the 2012 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2012 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 such person’s duly authorized attorney, upon surrender of such 2012 Bond for cancellation at the Office of the Trustee, accompanied by delivery of a duly executed instrument of transfer in a form approved by the Trustee. Upon the surrender of a 2012 Bond for transfer, the Trustee is to issue a new 2012 Bond or 2012 Bonds of the same maturity, for a like series and aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new 2012 Bond issued upon any transfer. The Trustee may require the payment by any 2012 Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2012 Bonds, the Trustee will cancel and destroy the 2012 Bonds it has received.

2012 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2012 Bonds of other authorized denominations of the same series and maturity. The Trustee may charge a sum for each new 2012 Bond issued upon any exchange except in the case of any exchange of temporary 2012 Bonds for definitive 2012 Bonds. The Trustee may require the payment by the Owner requesting such

exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2012 Bonds, the Trustee will cancel and destroy the 2012 Bonds it has received.

The Trustee is not required to register the exchange or transfer of any 2012 Bond: (i) within 15 days preceding selection of 2012 Bonds for redemption; or (ii) selected for redemption.

### **Redemption of the 2012 Bonds**

***Optional Redemption.*** The 2012 Bonds with stated maturities on or after September 1, 2023 are subject to redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2022, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

***Mandatory Sinking Fund Redemption.*** The 2012 Bonds with stated maturities on September 1, 2034 are subject to mandatory sinking fund redemption in part (by lot) on each September 1 on and after September 1, 2033 in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<b><i>Redemption Date (September 1)</i></b>	<b><i>Principal Amount</i></b>
2033	\$5,235,000
2034*	5,500,000

---

\* Final Maturity.

***Extraordinary Redemption.*** The 2012 Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date in the order of maturity and within maturities as directed by the District in a Written Request provided to the Trustee at least 60 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) prior to such date and by lot within each maturity in integral multiples of \$5,000 from Net Proceeds, upon the terms and conditions of, and as provided for in, the Indenture, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. See Appendix B under the caption “DEFINITIONS AND SUMMARY OF THE INDENTURE—Particular Covenants—Insurance” and “DEFINITIONS AND SUMMARY OF THE INDENTURE—Particular Covenants—Eminent Domain Proceeds,” respectively, for a description of the circumstances under which the 2012 Bonds could be subject to extraordinary redemption from Net Proceeds of insurance or condemnation.

### **Notice of Redemption**

When redemption is authorized or required, the Trustee will give notice to the Owners of the 2012 Bonds designated for 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 2012 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided that, in the case of notice of optional redemption not related to an advance or current refunding, such notice may be given only if sufficient funds have been deposited with the Trustee to pay the applicable Redemption Price of the 2012 Bonds to be redeemed, provided that such notice may be cancelled by the District upon Written Request delivered to the Trustee not less than five days prior to such Redemption Date. Each notice of redemption will state the date of notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2012 Bonds of any such maturity are to be redeemed, the serial numbers of the 2012 Bonds of such

maturity to be redeemed by giving the individual number of each 2012 Bond or by stating that all 2012 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2012 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 2012 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 2012 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon ceases to accrue, and will require that such 2012 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 2012 Bond. Notice of redemption of 2012 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 2012 Bonds, such notice will state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2012 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 2012 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.

#### **Book-Entry Only System**

One fully-registered 2012 Bond of each maturity of each series will be issued in the principal amount of the 2012 Bonds of such maturity. Such 2012 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

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 2012 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 of principal of and interest on the 2012 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D hereto for additional information concerning DTC.

## WESTLANDS WATER DISTRICT PAYMENT SCHEDULE

Set forth below is a schedule of District payments of principal of and interest on the 2012 Bonds and other District Contract payments for the period ending December 31 in each of the years indicated:

<i>2012 Bonds</i>					
<i>December 31</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Parity Payments<sup>(1)(2)(3)</sup></i>	<i>Total District Payments</i>
2013	\$ 2,315,000	\$ 3,025,278	\$ 5,340,278	\$ 9,235,026	\$ 14,575,303
2014	2,260,000	3,512,850	5,772,850	9,232,418	15,005,268
2015	2,325,000	3,445,050	5,770,050	9,243,709	15,013,759
2016	2,395,000	3,375,300	5,770,300	9,238,894	15,009,194
2017	2,490,000	3,279,500	5,769,500	9,243,573	15,013,073
2018	2,590,000	3,179,900	5,769,900	9,251,356	15,021,256
2019	2,695,000	3,076,300	5,771,300	9,260,757	15,032,057
2020	2,800,000	2,968,500	5,768,500	9,250,606	15,019,106
2021	2,915,000	2,856,500	5,771,500	9,262,341	15,033,841
2022	3,060,000	2,710,750	5,770,750	9,264,793	15,035,543
2023	3,215,000	2,557,750	5,772,750	9,266,262	15,039,012
2024	3,375,000	2,397,000	5,772,000	9,278,416	15,050,416
2025	3,545,000	2,228,250	5,773,250	9,289,016	15,062,266
2026	3,720,000	2,051,000	5,771,000	9,279,121	15,050,121
2027	3,905,000	1,865,000	5,770,000	9,298,840	15,068,840
2028	4,100,000	1,669,750	5,769,750	9,297,701	15,067,451
2029	4,305,000	1,464,750	5,769,750	9,082,045	14,851,795
2030	4,525,000	1,249,500	5,774,500	7,347,500	13,122,000
2031	4,745,000	1,023,250	5,768,250	7,351,250	13,119,500
2032	4,985,000	786,000	5,771,000	7,356,750	13,127,750
2033	5,235,000	536,750	5,771,750	7,358,250	13,130,000
2034	5,500,000	275,000	5,775,000	7,360,250	13,135,250
2035	--	--	--	7,367,000	7,367,000
2036	--	--	--	3,682,500	3,682,500
2037	--	--	--	3,685,500	3,685,500
2038	--	--	--	--	--
2039	--	--	--	--	--
2040	--	--	--	--	--
<b>TOTAL</b>	<b>\$ 77,000,000</b>	<b>\$ 49,533,928</b>	<b>\$ 126,533,928</b>	<b>\$208,783,874</b>	<b>\$335,317,802</b>

(1) Parity Payments include approximately \$131,345,000 aggregate principal amount in Parity Payments and interest with respect thereto. See the captions "INTRODUCTION" and "THE DISTRICT—Outstanding Obligations."

(2) Does not include the payments due under the 2002A Installment Purchase Agreement which is being refunded from the proceeds of the 2012 Bonds.

(3) Excludes payments under the State loans described under the caption "THE DISTRICT—Outstanding Obligations."

Source: District.

## SECURITY FOR THE 2012 BONDS

### Limited Obligations Payable From Net Revenues

The District is obligated to make payments of principal of and interest on the 2012 Bonds solely from Net Revenues of the District's Water System. The term "Net Revenues" means, for any Fiscal Year, the Revenues for such Fiscal Year, less the Operation and Maintenance Costs for such Fiscal Year (as such terms are defined in Appendix B—"DEFINITIONS AND SUMMARY OF THE INDENTURE"). The obligation to make payments of principal of and interest on the 2012 Bonds is payable on a parity with the obligation of the District to make the Parity Payments. See Appendix B—"DEFINITIONS AND SUMMARY OF THE INDENTURE" for a detailed discussion of the terms of the Indenture. See the captions "INTRODUCTION" and "THE DISTRICT—Outstanding Obligations" for a discussion of parity obligations.



THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2012 BONDS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2012 BONDS UNDER THE INDENTURE IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

### **Rate Covenant**

The Indenture requires the District, to the fullest extent permitted by law, to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred twenty-five percent (125%) of the Debt Service payable in 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 are reasonably expected to be sufficient to meet the foregoing requirements.

Any Policy Costs due and owing shall be treated as Operation and Maintenance Costs (as these terms are defined in the Indenture).

### **Additional Indebtedness**

The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance with the Indenture; provided:

(i) The Net Revenues 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 on such calculation on file with the District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year; and

(ii) The Net Revenues 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 Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, 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 on such calculation on file with the District, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such 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 such Contract had been executed or Bonds had been issued at the beginning of such Fiscal Year; and

(iii) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project to be financed from the proceeds of such Contracts or Bonds, as evidenced by a certificate on file with the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Water Service and which are economically feasible and reasonably considered necessary based on projected operations for such

period, as evidenced by a certificate of the General Manager on file with the District, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding the foregoing, Bonds issued or Contracts executed to refund Bonds or Contracts may be delivered without satisfying the conditions set forth above if Debt Service in each Fiscal Year after the Fiscal Year in which such Bonds are issued or Contracts executed is not greater than Debt Service would have been in each such Fiscal Year prior to the issuance of such Bonds or execution of such Contracts.

Notwithstanding satisfaction of the other conditions to the execution of any Contract or the issuance of Bonds set forth in the Indenture, no such execution or issuance may occur if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such Event of Default shall be cured upon such execution or issuance.

If the Contract is executed or Bonds are issued for refunding purposes, the District will deliver an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto), or a certificate of discharge of the trustee for such Contracts or Bonds to be refunded, to the effect that, upon the making of the required deposit to escrow, the legal defeasance of such Contracts or Bonds to be refunded will have occurred. If the Contracts or Bonds to be refunded are insured by AGM, at least three Business Days prior to the proposed date for delivery of the insurance policy with respect to such Contracts or Bonds refunding such Contracts or Bonds to be refunded, the Insurer will also receive (i) the verification letter, of which the Insurer will be an addressee, by an Independent Certified Public Accountant, of the adequacy of the escrow established to provide for the payment of such Contracts or Bonds to be refunded in accordance with the terms and provisions of the escrow agreement by which such Contracts or Bonds are being refunded, and (ii) the form of an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto) to the effect that the escrow agreement by which such Contracts or Bonds are being refunded is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms (such escrow agreement will provide that no amendments are permitted without the prior written consent of the Insurer). An executed copy of each of such opinion and reliance letter, if applicable, or Trustee's discharge certificate, as the case may be, shall be forwarded to the Insurer prior to delivery of such Contracts or Bonds.

## **Reserve Fund**

AGM has made a commitment to issue, simultaneously with the initial execution and delivery of the 2012 Bonds, the Reserve Surety Policy in the amount of \$5,775,000 (the "Reserve Requirement") for deposit in the Reserve Fund, effective as of the date of issuance of the 2012 Bonds. Under the terms of the Reserve Surety Policy, AGM will unconditionally and irrevocably guarantee to pay that portion of the scheduled payments of principal of and interest on the 2012 Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the District (the "Insured Payments").

See Appendix B—"DEFINITIONS AND SUMMARY OF THE INDENTURE" under the caption "REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST—Reserve Fund" for further information with respect to the Reserve Fund.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds:

### **Sources<sup>(1)</sup>:**

Principal Amount	\$ 77,000,000
Other District Funds <sup>(2)</sup>	540,336
Plus Original Issue Premium	<u>10,580,687</u>
Total Sources	<u>\$ 88,121,023</u>

### **Uses<sup>(1)</sup>:**

Transfer to the 2002 Escrow Fund	\$ 86,887,968
Deposit to Costs of Issuance Fund <sup>(3)</sup>	<u>1,233,055</u>
Total Uses	<u>\$ 88,121,023</u>

(1) All amounts are rounded to the nearest dollar. Totals may not add due to rounding.

(2) Amounts on deposit in the funds and accounts created with respect to the 2002 Certificates.

(3) Includes Underwriter's discount, premiums for the Policy and the Debt Service Reserve Insurance Policy, and certain legal, financing and printing costs.

## BOND INSURANCE

*The information under this caption has been prepared by AGM for inclusion in this Official Statement. Neither the District nor the Underwriter has reviewed this information, nor do the District or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not complete and reference is made to Appendix F for a specimen of the Policy.*

### **Bond Insurance Policy**

Concurrently with the issuance of the 2012 Bonds, AGM will issue the Policy for the 2012 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the 2012 Bonds when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the

assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On March 20, 2012, Moody's issued a press release stating that it had placed AGM's "Aa3" insurance financial strength rating on review for possible downgrade. AGM can give no assurance as to any further ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody's comments.

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, and its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012.

#### *Capitalization of AGM*

At June 30, 2012, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,169,404,271 and its total net unearned premium reserve was approximately \$2,204,572,593, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, for the quarterly period ended March 31, 2012, and for the quarterly period ended June 30, 2012, which have been filed with the New York State Department of Financial Services and posted on AGL's website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 (filed by AGL with the SEC on May 10, 2012); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (filed by AGL with the SEC on August 9, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the 2012 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM or one of its affiliates may purchase a portion of the 2012 Bonds offered under this Official Statement and may hold such 2012 Bonds for investment or may sell or otherwise dispose of such 2012 Bonds at any time or from time to time.

AGM makes no representation regarding the 2012 Bonds or the advisability of investing in the 2012 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

### **THE DISTRICT**

#### **General**

The District is a California water district duly organized and existing under the Law. The District has the powers under the Law to, among other things, provide water service within its water service area. The District is located on the west side of the San Joaquin Valley and includes approximately 614,700 acres in Fresno and Kings Counties of which approximately 568,500 acres are irrigable. The District currently provides agricultural water service to approximately 700 water users through over 3,460 meters and municipal and industrial water to approximately 205 users.

The District was formed in 1952 under the Law for the purpose of furnishing irrigation water and drainage service to farmers within the District. The District has operated continuously since its formation and in 1965 was merged with the Westplains Water Storage District.

#### **District Powers**

The District has broad general powers under the Law to perform all necessary or proper acts, including but not limited to the authority to acquire, plan, construct, maintain, improve, operate and repair necessary works for the transmission and distribution of water for irrigation and other purposes and for any drainage or reclamation of such water; the right of eminent domain; authority to impose land-based charges; authority to levy assessments or, in lieu thereof, to fix and collect charges for water, including standby charges made to holders of title to land to which water may be made available, whether or not the water is actually used; authority to establish rules and regulations for the sale and distribution of water, including rules for providing that water shall not be furnished to persons against whom there are delinquent water or other

charges; authority to contract with the United States, the State of California (the “State”) and the agencies of either; the power to join with one or more public agencies, private corporations or other persons for the purpose of carrying out any of the powers of the District; the authority to acquire property or rights in property necessary or proper for the District works and to supply the land with sufficient water for all District purposes.

### **Governance and Management**

The District is governed by a 9-member Board of Directors (the “Board”) who are elected by the landowners in the District to staggered 4-year terms. The current directors, the date of initial election or appointment and the expiration dates of their terms are set forth below.

#### **WESTLANDS WATER DISTRICT Board of Directors**

<i>Name</i>	<i>Elected/Appointed</i>	<i>Term Expires</i>
Don Peracchi, President	2008	2013
Daniel Errotabere, Vice President	1993	2013
Frank Coelho, Jr.	1991	2015
Donald Devine	1993	2015
Larry J. Enos	2007	2015
Gary Esajian	2002	2013
Todd Neves	2009	2015
Alan Sano	2011	2015
Sarah Woolf	2011	2013

Thomas W. Birmingham is the general manager of the District. Mr. Birmingham is responsible for the daily operations and maintenance of the District, as well as representing it in the Statewide water policy arena. Until May 1, 2010, Mr. Birmingham’s position and responsibilities included that of the District’s general counsel. Prior to his appointment as general manager/general counsel on October 1, 2000, Mr. Birmingham was a shareholder in the law firm of Kronick, Moskovitz, Tiedemann & Girard.

From 1995 to 2010, Mr. Birmingham served as the District's general counsel. Prior to that, for a period of nine years, Mr. Birmingham was special counsel to the District on a variety of matters, including reclamation law, drainage and water supply. Mr. Birmingham is a recognized expert on issues of water and environmental law and has represented both public agencies and private parties in matters related to water rights, water quality, drainage issues, the Endangered Species Act, the California Environmental Quality Act, the Clean Water Act and other environmental laws. Mr. Birmingham received a Bachelor of Arts from University of California, Los Angeles and a Juris Doctor, with distinction, from University of Pacific, McGeorge School of Law.

## **Employees**

The Board of the District delegates day-to-day management of the District to the general manager and other staff of the District. The District currently employs approximately 115 staff members. The general manager's office consists of 10 staff members involved with executive administration and public information. The Finance & Administration Division, which consists of the Purchasing, General Accounting, Customer Accounting, and Human Resources & Administration departments, consists of 29 employees. The Resources Division consists of 10 employees involved in water and other resource activities. Another 66 employees work in the Operations & Maintenance Division, which consists of the Operations, Mechanical Maintenance, Maintenance Support, Electrical Maintenance, and Civil & Preventative Maintenance Departments.

The Operating Engineers Union Local Number 3 ("Local Number 3") represents 54 non-management employees. The District and Local Number 3 entered into a Memorandum of Understanding for the Miscellaneous Non Supervisory Unit (the "Miscellaneous Employees Memorandum"), dated February 24, 2009. The Westlands Office & Clerical Employee Association represents 28 office and clerical employees. The District and the Westlands Office & Clerical Employee Association entered into a Memorandum of Understanding for the Office & Clerical Employee Unit between the District and Westlands Office & Clerical Employee Association (the "Office and Clerical Employees Memorandum," and together with the Miscellaneous Employees Memorandum, the "2009 Memoranda"), dated February 24, 2009. The 2009 Memoranda took effect as of March 1, 2009 and extended through February 29, 2012. The District, Local Number 3 and the Office & Clerical Employees Association are currently negotiating the terms of the new Memoranda of Understanding. The District does not expect that any agreement or memorandum of understanding which may be entered into with Local Number 3 or the Office & Clerical Employees Association will have a material adverse effect on the projected operations of the District as set forth under the caption "THE DISTRICT—Projected Operating Results."

## **Employee Benefits**

**Health Benefits.** Full-time, regular and probationary employees are eligible for the District's group insurance programs. The group insurance programs include medical, dental, vision, life, supplemental life, accidental death, employee assistance and long-term disability coverage. The District also offers its employees a deferred compensation plan created according to Internal Revenue Code Section 457 and a Flexible Spending Account Program under Internal Revenue Code Section 125. The District maintains mandatory workers' compensation insurance coverage, the current carrier being Wausau Insurance Companies.

**Pension Plan.** The District contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan, on behalf of 110 full-time equivalent 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 entities within the State, including the District. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The District currently funds the normal

pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the District's unfunded actuarial liability. For Fiscal Years 2011 and 2012, the District's CalPERS contribution was \$82,145 and \$263,863, respectively, which was equal to the annual required contribution (the "ARC") described below. For Fiscal Year 2013, the District's CalPERS contribution is expected to be \$365,758, assuming budgeted salaries and a contribution rate of 4.818% of annual covered payroll, which is equal to the ARC.

Participants are required to contribute 7.0% of their annual covered salary under the CalPERS plan.

The District participates in the Miscellaneous 2% at 55 Risk Pool of the California Public Employees' Retirement System (the "55 Risk Pool"). The 55 Risk Pool had an unfunded accrued liability of \$362,656,828 as of June 30, 2010 (the latest date for which figures are available from CalPERS), based on an actuarial value of assets of approximately \$2,946,408,106 as set forth in the most recent actuarial report prepared by CalPERS.

Under Government Accounting Standards Board Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2012 was determined by an actuarial valuation of the plan as of June 30, 2009 and the ARC for Fiscal Year 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010.

The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered. The actuarial valuations express the District's required contribution rates in percentages of covered payroll, which percentages the District must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared. CalPERS rules require the District to implement the actuary's recommended rates.

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

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return, currently 7.5%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in 2004 and 2005, affecting the Actuarial Value calculation beginning in Fiscal Year 2007.



On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial valuations used to determine employer contribution rates. The inflation assumption was changed from 3% to 2.75% effective July 1, 2012. The change will impact the inflation component of the annual investment return assumption and the long term payroll growth assumption as follows:

- The annual assumed investment return decreased from 7.75% to 7.5%.
- The long term payroll growth assumption decreased from 3.25% to 3%.
- The inflation component of individual salary scales decreased from 3.25% to 3%.

Although the impact of the above changes is not yet clear, these changes may result in increases in contribution levels; however, the reduction in the inflation assumption could partially mitigate increases, if any, in the District's required annual contributions resulting from the reduction in the assumed investment rate of return, as described above.

In April 2005, the CalPERS Board adopted new policies aimed at stabilizing rising employer costs. These policies were used to set employer contribution rates for the District beginning in Fiscal Year 2007. These policies include:

- Spreading CalPERS market value asset gains and losses over 15 years rather than three years.
- Widening the "corridor" limits for establishing the actuarial value of assets from 90% to 110% of market value to 80% to 120% of market value (except for the 3-year phase-in of investment losses from Fiscal Year 2009, as described below).
- Establishing a rolling 30-year amortization on all remaining net unamortized gains or losses, instead of amortizing 10% of the net unamortized gain or loss each year pursuant to prior policy. Such an amortization schedule results in approximately 6% of unamortized gains and losses each year. Due to the excess of accrued liability over actuarial value of plan assets, the amortization payment of the total unfunded liability may be higher than the payment calculated over a 30-year amortization period.
- Requiring a minimum employer contribution rate equal to the employer normal costs minus a 30-year amortization of surplus (but not less than 0%).

Pursuant to the April 2005 policy change, multiple amortization bases (including those for benefit improvement or changes in actuarial methods or assumptions, which are typically less than 30 years) were combined into a single base (the gain and loss bases) and amortized over a rolling 30-year period to effect a "fresh start" as of June 30, 2004. The April 2005 policy did not affect other existing amortization bases for benefit improvements, assumptions changes and method changes.

Due to significant market investment losses of approximately 24% in the CalPERS trust fund for Fiscal Year 2009, CalPERS implemented a 3-year phase-in of the Fiscal Year 2009 investment loss. This phased in approach will be achieved by temporarily relaxing the constraints on the smoothed value of assets around the actual market value. The corridor will be widened and then contracted as follows:

- Increase the corridor limits from 80% to 120% of market value to 60% to 140% of market value to determine the actuarial value of assets for the June 30, 2009 valuation, which impacts the Fiscal Year 2012 contribution rate.

- Reduce the corridor limits from 60% to 140% of market value to 70% to 130% of market value to determine the actuarial value of assets for the June 30, 2010 valuation, which impacts the Fiscal Year 2013 contribution rate.
- Return to the 80% to 120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter, which impacts contribution rates for Fiscal Year 2014 and beyond.
- Asset losses outside of the 80% to 120% corridor described above will be amortized pursuant to a fixed 30-year amortization schedule.

In addition, in February 2010, the CalPERS Board adopted a resolution requiring additional contributions for any plan or pool if the cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis of the plan to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043.

Such contributions have been factored into the District's contribution rates set by CalPERS.

The following table summarizes the annual required contributions of the District's risk pool for the respective periods ending June 30:

<i><b>Valuation Date (June 30)</b></i>	<i><b>Net Employer Normal Cost</b></i>	<i><b>Total Surcharges for Class 1 Benefits</b></i>	<i><b>Gross Employer Normal Cost</b></i>	<i><b>Payment on Pool's Amortization Bases</b></i>	<i><b>Total Payment on Employer Side Funds</b></i>	<i><b>Total Employer Contribution</b></i>
2007	7.72%	0.632%	8.352%	0.469%	2.249%	11.07%
2008	7.74	0.657	8.397	0.735	2.144	11.276
2009	7.684	0.656	8.34	1.855	1.955	12.15
2010	7.720	0.655	8.375	1.996	1.886	12.257

The District's employer contribution rate is calculated using a combination of the District's individual cost plan components and the risk pool's components. Accordingly, the District's employer contribution rate for such pool for Fiscal Year 2013 is 4.818%.

The following table sets forth the schedule of funding of the pool in which the District participates as of June 30, 2010.

<i><b>Valuation Date</b></i>	<i><b>Accrued Liabilities<sup>(1)</sup></b></i>	<i><b>Actuarial Value of Assets<sup>(1)</sup></b></i>	<i><b>Unfunded Liability<sup>(1)</sup></b></i>	<i><b>Funded Ratio</b></i>	<i><b>Annual Covered Payroll<sup>(1)</sup></b></i>	<i><b>Unfunded Liability as % of Payroll</b></i>
06/30/07	\$2,611,747,000	\$2,391,434,000	\$220,312,000	91.6%	\$665,523,000	33.1%
06/30/08	2,780,281,000	2,547,323,000	232,957,000	91.6	688,607,000	33.8
06/30/09	3,104,798,000	2,758,511,000	346,287,000	88.9	742,981,000	46.6
6/30/10	3,309,064,000	2,946,408,000	362,656,000	89.0	748,401,000	48.5

<sup>(1)</sup> Rounded to the nearest thousandth dollar.

Source: CalPERS Actuarial Report Dated June 30, 2010.

For additional information relating to the District plan, see Note L to the District's audited financial statements for Fiscal Year 2012 attached hereto as Appendix A.

CalPERS earnings reports for Fiscal Years 2010 and 2011 reported an investment gain in excess of 13.0 and 21.7%, respectively. On July 16, 2012, CalPERS preliminarily reported an investment gain of 1% in Fiscal Year 2012. Future earnings performance may increase or decrease future contribution rates for plan participants, including the District.

***Other Post-Employment Benefits.*** In addition to providing pension benefits, the District currently provides certain health care benefits for retired employees. Substantially all of the District's employees may become eligible for those benefits if they reach normal retirement age while working for the District.

Governmental Accounting Standards Board Statement No. 45 ("GASB 45") requires governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the District, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. For the District, the reporting obligation began with the Fiscal Year ending February 28, 2009. In 2009, the District entered into an agreement with the California Employer's Retiree Benefit Trust to administer post-employment benefit obligations on behalf of the District. In a report dated March 1, 2010, Nicolay Consulting concluded that the District's unfunded actuarial accrued liability for post-employment benefits based upon a 7.75% discount rate was \$7,764,280, and that the actuarial value of benefits earned during Fiscal Year 2011 plus costs to amortize the unfunded actuarial accrued liability, or "ARC", was \$1,052,892. While requiring the District to disclose the unfunded actuarial accrued liability and the ARC in its financial statements, GASB 45 does not require the District to amortize the ARC.

In Fiscal Year 2012, the District paid expenses with respect to post-employment benefits in the amount of \$1,080,737 for current retiree expenses and to fully fund the ARC. For Fiscal Year 2013, the District has budgeted \$1,286,700 in order to pay current retiree expenses and to fully fund the ARC. The District does not expect that any increased funding of post-employment benefits will have a material adverse affect on the ability of the District to pay the principal of and interest on the 2012 Bonds.

## **District Insurance**

The District maintains general and professional liability, property, auto, mobile equipment, crime, and excess liability insurance provided by Arch Insurance Company. General liability coverage, which encompasses wrongful acts, bodily, personal and professional injury, including public officials' errors and omissions and employment practices, is \$1,000,000 per occurrence, with a \$5,000 deductible. For real and business personal property, including property coverage extensions and boiler and machinery, coverage is approximately \$72,216,750, with a \$5,000 deductible. Coverage also includes a margin clause that will increase the District's limits of property coverage by 25% in the event of loss or damage. Mobile equipment coverage is approximately \$1,039,457, with a \$5,000 deductible. The crime insurance covers dishonesty, thefts, disappearance, and destruction; and computer fraud coverage at limits of \$100,000 each with a \$500 deductible. The excess liability coverage is \$20,000,000. The District maintains workers' compensation insurance as noted previously.

## **Land and Land Use**

The District encompasses an area of approximately 614,700 acres in Fresno and Kings Counties in the San Joaquin Valley of California. Substantially all of the land within the District is in agricultural production. Land within the District is relatively level. The District has hot, dry summers and cool, moist winters. Average rainfall is approximately eight inches a year.

When contract water from the Central Valley Project ("CVP") was first delivered within the District in 1968, 27 different crops were grown on approximately 114,000 acres. Cotton, safflower, seed alfalfa, barley and cantaloupes were the major crops. By 1980, over 36 different commercial crops were being grown in the District. Today, farmers in the District produce over 60 different crops on approximately 560,000 acres, including cotton, tomatoes, pistachios, cantaloupes, lettuce, almonds and onions. In addition, the District

operates and maintains two major facilities of the CVP, the Coalinga Canal and the Pleasant Valley Pumping Plant.

The San Luis Canal currently supplies approximately 99% of the District's CVP and contract water through 38 gravity turnouts and 30 pumping plants located throughout the District. Pipeline laterals distribute water within the District. Some land located in the northern portion of the District can be serviced by either the Mendota Pool or the San Luis Canal. Whenever possible, the District delivers San Luis Canal water to these lands in order to decrease pumping costs. All deliveries to water users are measured by flow meters which are read by the District twice each month.

Set forth below are the ten crops with the highest value for calendar year 2011 and the approximate value thereof.

**WESTLANDS WATER DISTRICT**  
**Calendar Year 2011 Crop Values**

<i>Crop</i>	<i>Acres Planted</i>	<i>Value<sup>(1)</sup></i>
Almonds	70,805	\$363,875,392
Tomatoes-Processing	71,976	276,503,002
Cotton-Lint-Pima	85,097	221,342,403
Tomatoes-Fresh	5,114	147,211,093
Pistachios	20,255	129,073,975
Grapes-Wine	11,994	63,136,296
Lettuce-Fall	9,017	62,465,268
Cantaloupes	13,864	62,384,257
Onions-Fresh	7,189	57,786,332
Wheat	70,266	46,392,424

<sup>(1)</sup> Reflects estimated values of calendar year 2011 crops, the latest date for which such information is available.  
Source: District.

Based on the most recently available data, the total gross value of the crops grown in the District during calendar year 2011 was approximately \$1,845,101,015.

### **District Water Supply**

***CVP Contract Water.*** The District and the Department of the Interior, Bureau of Reclamation (the "Bureau") executed a water supply contract in 1963 (the "1963 Contract") (the District as it then existed being referred to herein as the "Original Westlands District" or "Area I"). Pursuant to the provisions of the 1963 Contract, the District is entitled to up to 900,000 acre-feet of firm water supply (the "1963 Contract Amount") from the San Luis Unit of the CVP (the "San Luis Unit"), to the extent that water and facilities are available, and subject to certain other terms and conditions. See the caption "—Cost of CVP Contract Water." In 1965, the Original Westlands District merged with the Westplains Water Storage District (the area of the District which was included in the Westplains Water Storage District hereinafter referred to as the "Former Westplains District" or "Area II") creating an enlarged District (the "1965 Merger").

The merger of the Original Westlands District and the Former Westplains District occurred with the expectation that an additional water supply contract with the Bureau would be executed, which would incorporate the terms set forth in a memorandum executed by Kenneth Holum, Assistant Secretary of the Interior and approved by the Secretary of the Interior in 1964 (the "Holum Memorandum"). The Holum Memorandum generally contemplated the allocation of an additional 250,000 acre-feet of water from the San Luis Unit to the District at the rates set forth in the 1963 Contract.

Starting in 1968 and continuing through 1978, the Bureau supplied to the District, in addition to the 1963 Contract Amount, 200,000 acre-feet of water from the San Luis Unit as well as an additional 50,000 acre-feet of water from the Delta-Mendota Canal (collectively, the “Provisional Contract Amount”). Pursuant to internal water allocation policies developed by the District, the 1963 Contract Amount and the Provisional Contract Amount (collectively, the “CVP Contract Water”) were made available to water users in both the Original Westlands District and the Former Westplains District.

Negotiations of a proposed amendment to the 1963 Contract intended to implement the Holum Memorandum were generally completed by the Bureau and the District in 1975 (the “Proposed 1975 Amendment”). However, a lawsuit was brought by Contra Costa Water District to enjoin execution of the Proposed 1975 Amendment alleging a lack of an environmental impact statement (the “Contra Costa Action”). As a result of a preliminary injunction issued in the Contra Costa Action and for other reasons the Proposed 1975 Amendment was never executed.

Following the filing of the Contra Costa Action, the Bureau requested modifications to the Proposed 1975 Amendment, including an increase in rates to be charged for water delivered by the Bureau. From 1977 through 1981, the Bureau delivered water to the District pursuant to annual contracts, and no revised long-term contract was executed. Commencing July 1, 1978 the Bureau continued to deliver the Provisional Contract Amount pursuant to the Provisional Contract, but the cost of water was substantially increased. In addition, in 1979, certain landowners and water users in the Original Westlands District sued the District claiming that internal water allocation policy, which resulted in deliveries of 1963 CVP Contract Water to water users in the Former Westplains District, were improper.

In 1981, negotiations between the Bureau and the District concerning the renegotiation of the Proposed 1975 Amendments broke down, leading to a series of lawsuits ultimately involving the District, the Bureau and representatives of various groups of Original Westlands District and Former Westplains District landowners and water users. From 1982 through 1986 during the pendency of the lawsuits, the Bureau continued to deliver the 1963 Contract and the Provisional Contract Amounts pursuant to stipulated agreements in the litigation. In addition, the District distributed water within its boundaries according to internal water allocation policies which made the 1963 Contract Amount available to water users in the Original Westlands District and the Former Westplains District and the Provisional Contract Amount to water users in the Former Westplains District.

In 1986, all of the suits referred to above (except the Contra Costa Action) were the subject of a stipulated judgment (the “Barcellos Judgment”). Pursuant to the Barcellos Judgment, for the period prior to dismissal of the Contra Costa Action, the Bureau agreed to supply the Provisional Contract Amount to the District but at the Bureau cost of service rates rather than the 1963 Contract rates. The Bureau also agreed, subject to the requirements of federal law, to execute a long-term contract for 250,000 acre-feet of water and to use its best efforts to conclude a long-term contract for an additional 100,000 acre-feet of water for water users in the Former Westplains District (Area II) when additional CVP water became available.

The District agreed in the Barcellos Judgment that its internal water allocation policies would allow water users in the Original Westlands District first priority to the 1963 Contract Amount and would allow water users in the Former Westplains District first priority to the additional 250,000 acre-feet of water provided for in the Barcellos Judgment. The Barcellos Judgment also created a system of representation whereby landowners in the Original Westlands District and landowners in the Former Westplains District each appoint representatives (the “Area Representatives”) which the District is required to consult with and/or receive approval from prior to taking certain actions. In addition to the agreements set forth above, the Barcellos Judgment includes certain other provisions, including provisions relating to drainage. See the caption “—Drainage.” The Settlement Agreement was confirmed as described under the caption “—District Water Supply—Sagouspe Litigation” and such questions of water priority as between the Original Westlands District and the Former Westplains District will be resolved in accordance with the terms thereof. The Barcellos Judgment terminated by its terms on December 31, 2007.

Since 1989, the availability of CVP Contract Water has varied dramatically from year to year as a result of variances in precipitation, CVP storage and State and federal regulatory actions. See the caption “—Historic Water Usage.” On June 9, 2000, the Governor of the State and the Secretary of the Interior signed a document entitled “California’s Water Future: A Framework for Action.” This document provides that, during the first four years of Stage 1 of the CALFED Program, south-of-Delta CVP agricultural water service contractors will in normal water years receive a 65-70% allocation of their existing CVP Contract Water entitlement. For planning purposes, the District currently projects that CVP Contract Water deliveries will equal 40% of its 1,150,000 acre-foot CVP Contract Water entitlement. The District revises such estimates from time to time based upon announced Bureau allocations. For 2012, the CVP Contract Water supply is 40% as of August 2012. Since 1987 and until December 31, 2007, the District allocated all water delivered by the Bureau in accordance with the Barcellos Judgment. Commencing on March 1, 2008, CVP Contract Water has been allocated in accordance with the Settlement Agreement described under the caption “—Sagouspe Litigation.”

The 1963 Contract and the Provisional Contract terminated by their terms on December 31, 2007. Under the Central Valley Project Improvement Act (“CVPIA”), adopted by the U.S. Congress in 1992, all CVP contractors, including the District, are subject to certain penalties if they failed to renew the contracts prior to October 1, 1997. To address this provision of the CVPIA, on September 30, 1997, the District and the United States entered into a Binding Agreement for Early Renewal Between the United States and Westlands Water District, for both the 1963 Contract and the Provisional Contract (the “Binding Agreement”). Although the Binding Agreement was not a renewal of the Water Contracts, the District expected that, upon completion by the Bureau of certain environmental reviews required by CVPIA, and subject to negotiations between the District and the United States, the 1963 Contract and the Provisional Contract (the “Water Contracts”) would be renewed in accordance with the Binding Agreement.

In early 2007, the Bureau determined that it would not complete the required environmental reviews for renewal of the long-term Water Contracts before December 31, 2007. As a result, the Bureau initiated negotiations with the District for the interim renewal of the Water Contracts, concluding with execution of the Interim Renewal contract (the “IRC”) on December 27, 2007. The IRC provided for the same quantity of water supply as the Water Contracts, for a term of twenty-six months (January 1, 2008 through February 28, 2010).

The IRC included a provision that obligated the Bureau to renew the IRC for successive interim periods (each such period not being more than two years in length) upon request of the District in the event that required environmental reviews were not completed prior to December 31, 2007. The only condition in the IRC to such renewal was that the District comply with all terms and conditions of the IRC. Pursuant to this provision of the IRC, the IRC was renewed in February 2010 and February 2012, with the same substantive provisions with respect to water supply and the same extension provision. The current IRC extension has a February 28, 2014 termination date.

Given the repeated delays in the Bureau’s completion of the required environmental reviews as well as the possibility of legal challenges, the District believes it is unlikely that long term renewals of the Water Contracts will occur prior to the current February 28, 2014 termination date of the IRC. The District expects to request a two year extension to the IRC on or before February 28, 2014.

***Sagouspe Litigation.*** On June 18, 1999, owners of certain lands which were merged into the District as a result of the Westlands Water District Merger Law, California Water Code sections 37800 *et seq.*, commenced an action entitled *Sagouspe, et al. v. Westlands Water District, et al.*, (Fresno Superior Court Case No. 634127-5). In such action, the owners claimed, *inter alia*, that after December 31, 2007, the District would be obligated to allocate CVP Water delivered under a renewal of the 1963 Contract among all lands that were merged into the District and lands in the Original Westlands District equally, on a per acre basis. On March 29, 2000, owners of some of the lands in the Original Westlands District filed a cross-complaint in the *Sagouspe* action in which they claimed, *inter alia*, that Water Code section 37856 obligated the District to

allocate CVP Contract Water delivered under a renewal of the 1963 Contract equally, on a per acre basis, to the lands that were in the District prior to the merger of the Original Westlands District and the Former Westplains District resulting from the Westlands Water District Merger Law. These lawsuits are collectively referred to as the “Sagouspe Litigation.”

On April 29, 2002, the parties to the Sagouspe Litigation entered into an Agreement for Distribution of Water, Allocation of Costs, and Settlement of Claims (the “Settlement Agreement”). Pursuant to the Settlement Agreement, the District agreed to purchase land and/or water entitlements within the District. The District agreed to purchase enough land and/or water entitlements in the District to allow, during a normal water year, an allocation of 2.6 acre-feet of water to each acre of the remaining non-retired irrigable land in the District, excluding land annexed after the 1965 Merger. Commencing on March 1, 2008, and thereafter, CVP Water and any other water supply acquired pursuant to the Settlement Agreement shall be allocated equally to each acre of the remaining non-retired irrigable land in the District, excluding land annexed after the 1965 Merger.

***CVP Assignment Contract Water.*** Through a program to acquire long-term supplemental water entitlements, the District has acquired all or a portion of five other CVP contractors’ water entitlements, to date totaling approximately 45,383 acre-feet. The District and the Bureau have executed assignment contracts for all five of these acquisitions and the amount acquired is included in the CVP Water totals under the caption “—Projected Water Usage.”

***Supplemental Water.*** Since annual demand for water in the District exceeds CVP Contract Water supplies, water users in the District make up the shortfall through supplemental surface water purchases and groundwater supplies. Supplemental surface water is acquired from various other holders of water entitlements on the open market. While some District water users arrange their own supplemental surface water supply acquisition transactions, the District also takes subscription orders and acquires supplemental surface water on behalf of a combined group of water users. Since 1989, the quantity of supplemental surface water acquired in these combined fashions has ranged from a low of 16,000 acre-feet to a high of almost 356,000 acre-feet of water. Supplemental surface water acquired by the District in 2012 is approximately 170,000 acre feet.

***Groundwater.*** Groundwater supplies are an important part of meeting the demand for water within the District. In many cases, groundwater is less costly than surface water supplies. However, the long-term use of groundwater has negative implications for both water quality and on overdraft of the groundwater basin. In addition, subsidence of land adjacent to the San Luis Canal is another concern sparked by high levels of groundwater pumping. The District has determined that the safe yield for groundwater pumping is approximately 200,000 acre-feet per annum.

The District generally does not pump groundwater for resale. The District estimates, however, that groundwater pumping by landowners and water users within the District since 1993 has ranged from 14,000 acre-feet to 485,000 acre-feet per year. Groundwater pumping varies dramatically from year to year, but generally increases in years when CVP Contract Water decreases. See the caption “—Historic Water Usage.”

## Cost of CVP Contract Water

The cost of CVP Contract Water is determined by the Bureau. Prior to January 1, 2008, the cost of CVP Contract Water was determined pursuant to the terms of the Water Contracts, as amended, and applicable laws. From and after January 1, 2008 the cost of CVP Contract Water has been determined in accordance with the IRC and applicable laws. Under the Water Contracts, there were four Bureau water rates applicable to agricultural water use, plus one Bureau water charge, applied to each acre-foot of water delivered, described below. Under the IRC, only the Cost of Service and Full Cost water rates and the Restoration Fund charge remain.

1. **Cost of Service rate:** The Cost of Service rate represents the O&M rate plus the repayment of capital costs related to the CVP and amortization of certain CVP related operation and maintenance deficits through the year 2030. The capital component in the Cost of Service rate is non-interest bearing. Prior to January 1, 2008, water users who received Provisional Contract Water and CVP Assignment Contract Water, unless subject to the higher Full Cost rate, paid the Cost of Service rate.

2. **Full Cost rate:** Under the RRA, water users that lease more than 960 acres of land receiving water under the Reclamation Law must pay the Full Cost rate, which includes an interest component on outstanding capital.

3. **Municipal & Industrial rate:** The District provides approximately 6,000 acre-feet per year for incidental non-agricultural water service, for which a separate Municipal and Industrial rate applies.

4. **Restoration Fund charge:** Section 3407(c) of CVPIA imposes on the District a fee on each acre-foot of CVP Contract Water delivered by the District, in order to fund payments in the Restoration Fund, established to carry out the fish and wildlife restoration goals of CVPIA.

The table below sets forth, where applicable, the Bureau's 1963 Contract Rate, O&M Rate, Cost of Service Rate, Full Cost Rate, and Restoration Charge per acre-foot for Fiscal Years 2009 through 2013.

<i><b>Fiscal Year</b></i>	<i><b>Cost of Service Rate</b></i>	<i><b>Full Cost Rate</b></i>	<i><b>Restoration Charge</b></i>
2013	\$79.84	\$100.05	9.39
2012	63.16	82.76	9.29
2011	69.40	89.05	9.11
2010	75.40	95.26	9.06
2009	64.10	84.45	8.79

---

Source: District.

The Cost of Service Rate and the Full Cost Rate can vary significantly from year to year as a result of changes in Bureau costs, reductions in total CVP deliveries and other factors. In addition, the United States Congress has increased Bureau CVP water rates by legislation in the past and may do so again in the future. For this reason it is difficult for the District to forecast Bureau rates from year to year.

In addition to the rates set forth above, an amount (the "Potential Deficit") equal to the difference between the actual cost of operations and maintenance as computed in accordance with Reclamation Law ("Actual O&M") and the payments made in accordance with the Water Contracts, the IRC, and Reclamation Law, whichever is applicable, is accrued by the Bureau. The District has the option to voluntarily pay all or a portion of the Potential Deficit. The amount of Potential Deficit not paid by the District voluntarily (the "Actual Deficit") is required under current Reclamation Law to be repaid within thirty days after notice by the Bureau and accrues interest thereafter. On December 27, 1992 the District prepaid substantially all of its



Actual Deficit accrued through that date. As of September 30, 2010 (the latest date for which information is available from the Bureau), the District has an Actual Deficit balance of zero.

Under certain circumstances the Water Contracts permitted the deferral of payments of certain costs by the District. The District has exercised these rights to defer payments, most recently in Fiscal Year 1993 when approximately \$3,982,800 of costs were deferred. All such deferred amounts were paid by the Fiscal Year 1994.

As of March 1, 1998, responsibility for operation and maintenance (“O&M”) of CVP conveyance systems was transferred to joint powers agencies representing most of the water contractors served by such facilities. At the same time, funding responsibilities were transferred, so that water contractors such as the District directly pay the costs of conveyance O&M. Federal appropriations no longer fund the activity, except where the federal government is the water contractor. Pursuant to these agreements, the Authority now sets and collects O&M rates for CVP conveyance facilities utilized to deliver water to the District. Overall, the transfer of responsibilities provides greater local control over cost and increases facilities reliability. The conveyance O&M costs must be fully funded on an annual basis, which may cause some year-to-year increases. However, such costs will also be fully accounted for, with overpayments available for credit or refunding. The District will no longer incur interest-bearing deficit obligations to the federal government for the conveyance O&M costs.

### **District Water Charges**

**Rate Setting Procedure.** Water rates and acreage charges are typically adopted in February, after Board approval of the District’s proposed budget and are subject to the notice, hearing and protest provisions of Proposition 218. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.” The budget takes into account the water supply situation facing the District for the upcoming water year. The District operates on a March-to-February Fiscal Year. The budget adopted in February may be augmented during the year if the water supply situation improves.

The District raises annual operating revenues from water sales, which are billed monthly, and acreage charges, which are billed annually. The District’s water sales revenue and revenue from certain acreage charges covers all operating expenses as well as a portion of its capital repayment obligation to the Bureau. Non-operating revenues include interest income and assessments.

Payment for water and power used is due by the 25th day of the month following the month of use. Payment of acreage charges covering a portion of the District’s operating expenses are due by September 25 of each year. No further water deliveries are made if such payments are not received when due. In the event that any of such payments are not made, the amount(s) owed may be added to the annual assessment on the land on which the water or power was allocated or used, or on which acreage charges were imposed, as applicable.

Each January, farmers within the District must apply for an allocation of agricultural water for the forthcoming crop year (March 1 to February 28) and agree to accept and pay for it. The Bureau informs the District by February of the initial availability of CVP Water.

**Water Charges.** Through Fiscal Year 2010, the District’s O&M rate covered all costs associated with supplying and distributing water to its customers, in addition to acquisition of capital assets and preventive maintenance programs, depreciation and a portion of the District’s capital repayment obligation. Rates may be subsequently adjusted if the water supply situation changes after February. The District’s O&M rate is added to the cost of CVP Water deliveries. Beginning in Fiscal Year 2011, one-half of these operation and maintenance costs has been collected as an acreage charge. See the caption “—Acreage Charges.”

In March 1998, the District also adopted the Actual USBR O&M, O&M Deficit, and the Capital Shift rate components. These rates were established to address any interest-bearing deficit obligation accruing to the

federal government, resulting from the difference between the United States' actual O&M costs and the rates collected under the District's Water Contracts, and an internal shifting of costs between District ratepayers related to the United States deficit accounting policies. 1963 Contract rate payers (water users who did not elect to conform to the discretionary provisions of the Reclamation Law) were excluded by the Barcellos Judgment from having to pay these charges. Therefore, the District will continue to accrue certain O&M Deficits, and cost shifts, until Water Contracts are renewed. With execution of the IRC, certain pre-existing cost shift issues were resolved. Any deficit and/or cost shift issues that arise in the future will be addressed by the District.

The Water Delivered Benefit rate is collected by the District from all water users who take delivery of any water through the District's distribution system to repay a portion (30%) of the District's capital obligation to the United States for construction of the distribution and drainage system.

The State Water Resources Control Board ("SWRCB") water rights fee rate is collected by the District from all water users who take delivery of any of the District's CVP Contract Water in order to pay the SWRCB's fees for water rights and water quality certification programs adopted as a result of the emergency regulations implementing SB 1049.

The District imposes a number of other rates and charges. The Water Allocation Benefit charge is billed by the District to all water users based upon the amount of CVP Contract Water that is allocated to land such users farm, and is used to repay a portion (20%) of the District's capital obligation to the United States for construction of the distribution and drainage system. Usage charges are billed by the District to water users based upon their overuse of water allocated to their account and for use of the distribution system on lands which are not assessable but which the water user farms to cover a share of the repayment obligation to the Bureau for costs incurred in building distribution and drainage collector facilities in the District. A Power Surcharge, based on pumping pressure and lift, is added to water rates for agricultural deliveries through temporary facilities. This surcharge applies to lands west of the San Luis Canal and the Coalinga Canals. The Ground Water Management Program charges are collected on all water delivered through groundwater pumping facilities that have been transferred to the District by water users. Account Monitoring Charges are imposed on certain water users with delinquent accounts or where increased monitoring is warranted in order to recover the District's cost of providing associated services.

***Acresage Charges.*** In 2000, the Long-Term Water Supply debt service charge was adopted to cover the installment payments payable under an Installment Purchase Agreement, dated as of April 1, 1999 (the "Series 1999A Installment Payments") and fund an internal reserve for the first phase of the District's land and water acquisition program. The calculation of the Long-Term Water Supply debt service charge was revised in 2003 pursuant to the terms of the Settlement Agreement. The District raised the Long-Term Water Supply debt service charge beginning in Fiscal Year 2006 to pay a portion of the Series 2005A Installment Payments. In 2005, the proceeds of the Series 2005B Certificates were used to prepay a portion of the Series 1999A Installment Payments and the Long-Term Water Supply debt service charge was decreased to cover the debt service on the Series 2005B Installment Purchase Agreement. In Fiscal Years 2008 and 2009, the charge was increased to pay the Series 2007A Installment Payments, the Series 2007B Installment Payments and the Series 2008A Installment Payments, respectively (as such terms are defined under the caption "—Outstanding Obligations"). In 2009, the District's obligation to pay the portion of Series 1999A Installment Payments not refunded from the proceeds of the Series 2005B Certificates ceased and the Long Term Water Supply debt service charge was decreased accordingly.

In Fiscal Year 2011, after compliance with the notice, hearing and protest procedures of Proposition 218, the District adopted a land-based O&M Costs charge to cover one-half of the District's annual budgeted operation and maintenance costs. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218" for a discussion of the election requirements under the State Constitution with respect to such charges. The remaining one-half of operation and maintenance costs are covered by the District's O&M rate. See the caption "—Water Charges."

Annually, the District assesses all lands to collect 50% of the repayment obligation to the Bureau for costs incurred in building distribution and drainage collector facilities in the District. At its inception, the 1965 Contract obligation totaled \$157,048,000, less \$8,360,000 paid from Lemoore Naval Air Station lease revenues. In addition, the obligation under Public Law 95-46 (San Luis Unit Task Force legislation) and the Barcellos Judgment for repayment of additional distribution and drainage collector facilities originally totaled \$17,471,231. These obligations are non-interest bearing. Collection for the 1965 Contract obligation began in 1979 and continues through the year 2018. Collection for the Public Law 95-46 obligation began in 1981 and concluded in Fiscal Year 2001. The annual principal payment on the 1965 Contract is \$3,982,800.

In Fiscal Year 2012, after compliance with the notice, hearing and protest procedures of Proposition 218, the District adopted a charge to fund costs associated with the representation of private landowners in a dispute with the United States relating to the drainage of lands within the District that are affected by sub-surface drainage. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218” for a discussion of the election requirements under the State Constitution with respect to such charges. See the caption “—Drainage” for further information with respect to drainage issues affecting the District.

***Settlement Agreement Charges.*** Under the Settlement Agreement, the District is obligated to assess all irrigable land within Area I and Area II of the District to pay the sum of 78.73% of the Series 1999A Installment Payments and all of the Series 2002A Installment Payments annually on a per acre basis to non-retired lands in Area I and Area II, respectively, on the basis of a 1 to 2.33 ratio. When the Series 1999A Installment Payments were partially prepaid by the Series 2005B Certificates, and then the 2008A Certificates, the District’s obligation with respect to the Series 1999A Installment Payments continued in full.

In addition, a charge for extraordinary repairs of pipe is collected each year on all irrigable land within Area I and Area II of the District to cover the costs of certain repairs and replacements to the distribution system.

Settlement Agreement charges are approved by the District on an annual basis and are subject to the hearing and protest provisions of Proposition 218. See the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.”

***Supplemental Water.*** The cost of supplemental surface water acquired, either directly by water users or by the District on behalf of a group of water users, is borne by the individual or the group, respectively. For supplemental surface water acquired by the District, all water transaction costs are pooled together and a single, blended rate per acre-foot of water is then charged to the individuals comprising the group, based upon their individual allocations of such supplemental surface water.

***Municipal and Industrial Water.*** The District delivers nonagricultural water to Lemoore Naval Air Station, area businesses, labor facilities, cotton gins, crop-grading stations, processing plants and private homes. The intended use of nonagricultural water requires a minimum billing of either 1 or 2 acre-feet, payable in advance. This water use accounts for about 6,000 acre-feet per annum, under 1% of water used within the District.

## **Drainage**

In 1960, when the San Luis Unit of the CVP was authorized, provisions for drainage of sub-surface saline agricultural water were included in the legislation. The District maintains that its 1963 Contract requires the Bureau to provide drainage service to lands within the District that are affected by sub-surface drainage. The Bureau originally intended to build the San Luis Drain from the extreme southern end of the District to a discharge point into the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the “Bay-Delta”). Environmental considerations prevented completion of the Drain, of which some 82 miles had been constructed between 1968 and 1975. The Drain was terminated at the Kesterson Wildlife Refuge, which is

about 40 miles north of the District. Between 1978 and 1986, approximately 7,300 acre-feet of drainage water from the District drained annually into the San Luis Drain and Kesterson Reservoir. This saline drainage water was collected from a 42,000 acre area of the District having District open joint collector lines with approximately 5,000 of these acres having on-farm collector lines.

In March 1985, due to concerns over selenium concentrations in waterfowl at the Kesterson Refuge, the Department of Interior announced plans to immediately close Kesterson and the Drain and terminate irrigation water deliveries to 42,000 acres in the District. This plan was later modified to permit continued irrigation but required the District to find alternative means for disposing of the drainage water or stop all flows to Kesterson Reservoir by June 1986. The District initially attempted to provide evaporation ponds to dispose of the drainage water. However, because of requirements by regulatory agencies as to the design and monitoring of the ponds, the costs proved prohibitive. As a last resort, to meet the June 1986 deadline, as required by its agreement with the United States, the District plugged the drains in May 1986. For a description of the District's responsibility for a share of the costs of cleanup of Kesterson Reservoir, see the caption "—Kesterson Cleanup Cost."

In 1994, the Federal District Court ordered the Bureau to make application to the SWRCB for the water quality permits necessary to complete the Drain. The State Board then concluded that a comprehensive environmental review regarding drainage alternatives was necessary and initiated a negotiation process with the District and the Bureau for payment of environmental service costs. In February 2000, the United States Court of Appeals for the Ninth Circuit affirmed the District Court's decision that the Secretary of the Interior has a statutory duty to provide drainage service to the San Luis Unit of the CVP. It reversed, however, the District Court's injunction ordering the Bureau to make the application necessary to complete the Drain. The Ninth Circuit held that the Secretary has discretion to provide drainage service through means other than the Drain, and the form of the injunction impermissibly constrained the exercise of that discretion. On April 18, 2001, the Bureau submitted a plan describing additional studies it would conduct to assess all viable drainage service alternatives to determine their economic feasibility, environmental impacts and benefits. A final plan and supporting Environmental Impact Statement ("EIS") was completed and released during March 2007. The Bureau has indicated that it may not receive sufficient appropriations from the Federal Government to implement the Preferred Alternative that was identified in the EIS Record of Decision. As a result, the Bureau has requested and initiated negotiations with affected San Luis Unit Contractors, including the District, for an alternative drainage solution. These negotiations are in process, but the District cannot predict the outcome of such negotiations.

The District and the Bureau are pursuing several other strategies to cope with the lack of drainage facilities, including reduction of drainage water through prudent management and conservation of irrigation water. Strategies under consideration include treating and recycling drainage water, agriforestry, evaporation ponds, cogeneration, selected land retirement, and shallow groundwater pumping.

The lack of adequate drainage management will, over time, cause the buildup of saline sub-surface water in certain areas within the District. The extent of this buildup is uncertain, as is the ultimate cost of drainage management and treatment. District management believes that a solution can be developed that is manageable, both technically and economically, within the financial capabilities of the District. Nonetheless, the District continues to maintain that the United States has breached its contractual duties to provide drainage service and continues to do so.

In May 2012, the District filed a lawsuit against the United States in the United States Court of Federal Claims alleging breach of contract with respect to the Bureau of Reclamation's continuing failure to provide drainage services and facilities. The damages sought could run into the hundreds of millions of dollars if the District prevails on each claim of the complaint. The United States has not answered the allegations in the complaint, but has filed a motion to dismiss the case. No hearing has yet been set on the matter; however, the District's counsel is optimistic for a satisfactory outcome for the District. The District continues to express its willingness to engage the United States in meaningful discussions to settle this matter.

Prior to the filing of the District's lawsuit, a group of Westland farmers brought a class action suit in the same federal court alleging that through its inaction of the drainage solution, the Government effectively had "taken" their land without just compensation as required by the Fifth Amendment to the United States Constitution. This action is independent of the District's suit. This independent law suit is financed through a land-based charge collected by the District, acting as the fiscal agent of convenience for the plaintiffs in the suit. See the caption "THE DISTRICT—District Water Charges—Acreage Charges." Otherwise, the District does not participate in that action in any manner, except to respond to lawful process served by the parties. The United States has also moved to dismiss the class action suit. A hearing on that motion is scheduled for October, 2012.

### **Kesterson Cleanup Cost**

In 1995, the Bureau issued a Kesterson Reservoir Cleanup Repayment Report (the "Repayment Report") in response to the Federal Conference Report accompanying H.R. 5019, which required that repayment policies with respect to Kesterson and other drainage related costs be reviewed. The Repayment Report included estimated reimbursable and non-reimbursable cleanup costs. The District's reimbursable costs incurred from 1985 through 1990 were approximately \$19.8 million. The Bureau has capitalized these costs over the period 1999 to 2030, and will include such costs in the capital portion of the District's CVP Contract Water rates in those years. The District's reimbursable costs incurred after 1990 have been and will be included in the Bureau's annual O&M rates charged to the District. These costs range from \$200,000 to \$1,000,000 annually, depending upon the level of monitoring activity.

### **Historic Water Usage**

The District records the volume of water delivered by its distribution system and estimates groundwater pumping by water users in the District. The following table summarizes water deliveries and groundwater pumping in the District for the most recent ten water years.

#### **WESTLANDS WATER DISTRICT Historic Water Usage (Acre-Feet)**

<i><b>Water Year</b></i>	<i><b>CVP Contract Water<sup>(1)</sup></b></i>	<i><b>Supplemental Water<sup>(2)</sup></b></i>	<i><b>Groundwater<sup>(3)</sup></b></i>	<i><b>Total Water Usage</b></i>
2011-12	842,552	286,424	45,000	1,173,976
2010-11	570,732	159,865	140,000	870,597
2009-10	195,716	145,494	480,000	821,210
2008-09	332,547	202,958	460,000	995,505
2007-08	629,520	167,364	315,000	1,111,884
2006-07	1,076,461	84,015	25,000	1,185,476
2005-06	986,159	129,111	75,000	1,190,270
2004-05	793,383	148,600	210,000	1,151,983
2003-04	855,306	148,320	160,000	1,163,626
2002-03	776,526	170,083	205,000	1,151,609

(1) Includes rescheduled water from the previous water year. Includes long-term supplemental water.

(2) Includes annual supplemental surface water acquired by the District and acquired by water users independent of the District.

(3) Estimated groundwater pumped by landowners or water users in the District.

Source: District.

CVP Contract Water deliveries have varied dramatically from year to year as a result of variances in precipitation, CVP storage and State and federal regulatory actions. Water deliveries in water years 2008-09 and 2009-10 reflect the effects of three successive years of very low precipitation throughout the State.

Supplemental water purchases and groundwater pumping by water users in years of low CVP Contract Water deliveries substantially offset the decreases in CVP Contract Water deliveries.

### **Projected Water Usage**

The following table lists the District's estimated water deliveries for the current and next four Fiscal Years as well as estimated groundwater pumping by water users in the District. In water year 2012-13, the District has received a 40% allocation of its CVP Contract Water entitlements. For the remaining water years, projected CVP Contract Water deliveries are based on an allocation of approximately 40% of the District's CVP Contract Water entitlements.

The District received supplemental water commencing in Fiscal Year 2002 and projects other supplemental water purchases as well. CVP Contract Water entitlements will vary from year to year as described herein and such variations may be material. Reduced CVP Contract Water deliveries may result in an increase in Supplemental Water purchases and increased groundwater pumping.

#### **WESTLANDS WATER DISTRICT Projected Water Usage (Acre-Feet)**

<i>Water Year</i>	<i>CVP Contract Water<sup>(1)</sup></i>	<i>Supplemental Water<sup>(2)</sup></i>	<i>Groundwater<sup>(3)</sup></i>	<i>Total Water Usage</i>
2012-13 <sup>(4)</sup>	427,970	170,000	300,000	897,970
2013-14	478,000	170,000	300,000	948,000
2014-15	478,000	170,000	300,000	948,000
2015-16	478,000	170,000	300,000	948,000
2016-17	478,000	170,000	300,000	948,000

(1) May include rescheduled water from the previous water year.

(2) Includes supplemental surface water acquired by the District and acquired by water users independent of the District.

(3) Estimated groundwater pumped by landowners and water users in the District.

(4) Reflects District estimate of a projected hydrological year based on data for year to date.

Source: District.

### **Historic Revenues and Expenses**

The following table sets forth a summary of water system operating results and debt service coverage of the District for the last five Fiscal Years. The information set forth in the following table has been derived by the District from its audited financial statements for such Fiscal Years, but excludes certain non-cash items and certain other adjustments. A copy of the Fiscal Year 2012 audited financial statements of the District, including the unqualified opinion letter of Sampson, Sampson & Patterson, LLP, Clovis, California (the "Auditor") are set forth in Appendix A. The District has not requested the consent of the Auditor to reproduce such financial statements in this Official Statement and the Auditor has not updated such financial statements since the date thereof. The following summary for the Fiscal Year ended the last day of February for the years indicated is qualified in its entirety by reference to such statements for such years, including the notes thereto. The Auditor has not reviewed the information set forth in the following table.

**WESTLANDS WATER DISTRICT**  
**Historic Operating Results and Debt Service Coverage (Fiscal Years)**

	2008	2009	2010	2011	2012
<b>Revenues:</b>					
Irrigation Water Sales <sup>(1)</sup>	\$ 78,343,795	\$ 80,006,486	\$ 92,503,663	\$ 132,490,566	\$ 109,590,756
Municipal & Industrial Water Sales	2,237,998	2,908,914	2,512,549	2,175,955	1,770,251
Interest Income	3,517,648	2,281,529	1,755,018	1,174,505	1,149,500
Assessments and Other Charges	15,098,689	15,381,390	17,364,590	29,797,812	28,596,459
Other Revenue	<u>2,988,623</u>	<u>1,009,733</u>	<u>1,971,231</u>	<u>2,567,485</u>	<u>3,748,920</u>
<b>Total Revenues</b>	<u>\$ 102,186,753</u>	<u>\$ 101,588,052</u>	<u>\$ 116,107,051</u>	<u>\$ 168,206,323</u>	<u>\$ 144,855,886</u>
<b>Expenses:</b>					
Purchased Water	\$ 60,723,897	\$ 62,010,512	\$ 72,497,058	\$ 111,617,544	\$ 90,430,229
Pumping	217,412	250,985	193,671	216,921	256,449
Transmission and Distribution <sup>(2)</sup>	4,172,752	4,555,725	5,303,018	6,136,685	5,733,454
Administrative	11,315,258	14,001,676	18,050,281	18,560,338	18,378,677
Westlands Water District DHCCP Activity Agreement – 2009 Notes <sup>(3)</sup>	--	--	--	2,249,856	2,249,997
SLDMWA Project Contract <sup>(4)</sup>	<u>425,216</u>	<u>(8,567)</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Total Expenses</b>	<u>\$ 76,854,535</u>	<u>\$ 80,810,331</u>	<u>\$ 96,044,028</u>	<u>\$ 138,781,344</u>	<u>\$ 117,048,806</u>
<b>Net Revenues</b>	<u>\$ 25,332,218</u>	<u>\$ 20,777,721</u>	<u>\$ 20,063,023</u>	<u>\$ 29,424,979</u>	<u>\$ 27,807,080</u>
<b>Contract Payments</b>					
Series 1999A Installment Payments <sup>(5)</sup>	\$ 835,923	\$ 809,213	\$ (36,034)	\$ --	\$ --
Series 2002A Installment Payments	6,463,420	6,479,413	6,481,588	6,481,812	6,481,638
Series 2005A Installment Payments	3,699,055	3,685,712	3,686,737	3,686,387	3,684,775
Series 2005B Installment Payments	1,344,445	443,200	--	--	--
Series 2007A Installment Payments	1,692,669	2,285,750	2,284,850	2,284,663	2,288,375
Series 2007B Installment Payments	233,971	1,311,156	1,311,856	1,311,956	1,311,456
Series 2008A Installment Payments	--	950,348	1,901,439	1,905,053	2,029,617
State Irrigation Loan #1	64,465	64,502	64,427	64,387	64,347
State Irrigation Loan #2	<u>323,055</u>	<u>322,640</u>	<u>322,830</u>	<u>322,818</u>	<u>323,457</u>
<b>Total Contract Payments</b>	<u>\$ 14,657,003</u>	<u>\$ 16,351,934</u>	<u>\$ 16,017,693</u>	<u>\$ 16,057,076</u>	<u>\$ 16,183,665</u>
<b>Coverage Ratio<sup>(6)</sup></b>	1.73	1.27	1.25	1.83	1.72
<b>Subordinate Contract Payments</b>					
1965 Contract	\$ 3,982,714	\$ 3,982,714	\$ 4,058,386	\$ 3,982,714	\$ 3,982,714
Prop 44 Loan	<u>75,642</u>	<u>75,578</u>	<u>75,482</u>	<u>71,776</u>	<u>--</u>
<b>Total Subordinate Contract Payments</b>	<u>\$ 4,058,356</u>	<u>\$ 4,058,292</u>	<u>\$ 4,133,868</u>	<u>\$ 4,054,490</u>	<u>\$ 3,982,714</u>
<b>Remaining Balance</b>	<u>\$ 6,616,859</u>	<u>\$ 367,495</u>	<u>\$ (88,537)<sup>(7)</sup></u>	<u>\$ 9,313,413</u>	<u>\$ 7,640,701</u>

(1) Includes CVP Contract Water and supplemental surface water.

(2) Reflects additional pumping and delivery costs associated with the purchase of a significant amount of supplemental water.

(3) Reflects capitalization of interest on the 2009 Notes through March 1, 2010. See the caption “—Outstanding Obligations—Joint Powers Agencies Obligation.”

(4) District payment obligation under Project Agreement with the Authority with respect to Tracy Pumping Plant Project. Fiscal Year 2009 amount represents net credit of monies held in funds and accounts with respect to this obligation upon final payment by District.

(5) Fiscal Year 2010 amount represents net credit of monies held in funds and accounts with respect to this obligation upon final payment by District.

(6) Equals Net Revenues divided by Total Contract Payments.

(7) Paid from District reserves.

Source: District.

## Projected Operating Results

Estimated projected operating results (on a cash basis) for the District for the current and next four Fiscal Years are set forth below. The projected operating results for Fiscal Year 2013 reflect the projected 40% allocation for CVP Contract Water entitlements in water year 2012-13. For more information, see the caption “—Projected Water Usage.” Certain assumptions have been made by the District in the development of the projections. Many of these assumptions are reflected in the footnotes accompanying the projections. While the District believes its assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. The District’s projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected below cannot be assured.

### WESTLANDS WATER DISTRICT Projected Operating Results and Debt Service Coverage (Fiscal Years)

	2013 <sup>(1)</sup>	2014	2015	2016	2017
<b>Revenues:</b>					
Irrigation Water Sales <sup>(2)</sup>	\$121,767,800	\$125,328,400	\$132,557,900	\$136,442,200	\$140,443,100
Municipal & Industrial Water Sales <sup>(3)</sup>	2,330,800	2,223,400	2,290,100	2,358,800	2,429,600
Interest Income <sup>(4)</sup>	1,100,000	1,111,000	1,122,100	1,133,300	1,144,600
Assessments and Other Charges <sup>(5)</sup>	29,794,200	28,403,400	28,656,300	29,045,100	29,418,100
Other Revenue <sup>(6)</sup>	2,727,900	2,755,200	2,782,800	2,810,600	2,838,700
<b>Total Revenues</b>	<u>\$157,720,700</u>	<u>\$160,036,700</u>	<u>\$167,724,000</u>	<u>\$172,107,600</u>	<u>\$176,602,900</u>
<b>Expenses:</b>					
Purchased Water <sup>(7)</sup>	\$104,441,000	\$109,052,100	\$112,323,700	\$115,693,400	\$119,164,200
Pumping <sup>(7)</sup>	302,700	311,800	321,200	330,800	340,700
Transmission and Distribution <sup>(7)</sup>	7,722,500	7,954,200	8,192,800	8,438,600	8,691,800
Administrative <sup>(7)</sup>	20,276,500	20,479,300	20,684,100	20,890,900	21,099,800
Westlands Water District DHCCP Activity Agreement – 2009 Notes <sup>(8)</sup>	2,250,000	2,250,000	--	--	--
DHCCP Construction Activity Agreement <sup>(9)</sup>	--	--	5,812,000	5,812,000	5,812,000
<b>Total Expenses</b>	<u>\$134,992,700</u>	<u>\$140,047,400</u>	<u>\$147,333,800</u>	<u>\$151,165,700</u>	<u>\$155,108,500</u>
<b>Net Revenues</b>	<u>\$ 22,728,000</u>	<u>\$ 19,774,000</u>	<u>\$ 20,075,400</u>	<u>\$ 20,624,300</u>	<u>\$ 21,165,600</u>
<b>Contract Payments<sup>(10)</sup></b>					
Series 2002A Installment Payments	\$ 5,311,953	\$ --	\$ --	\$ --	\$ --
Series 2005A Installment Payments	3,662,881	3,659,925	3,655,425	3,656,925	3,652,250
Series 2007A Installment Payments	2,285,663	2,283,384	2,283,619	2,286,119	2,283,394
Series 2007B Installment Payments	1,311,381	1,315,606	1,313,106	1,314,906	1,311,006
Series 2008A Installment Payments	1,910,369	1,910,070	1,908,715	1,911,154	1,912,385
Series 2012A Bonds	1,245,703	5,851,000	5,738,950	5,735,175	5,722,400
State Irrigation Loan #1	65,844	65,844	65,844	65,844	65,795
State Irrigation Loan #2	323,293	323,293	323,293	323,293	323,293
<b>Total Contract Payments</b>	<u>\$ 16,117,087</u>	<u>\$ 15,409,122</u>	<u>\$ 15,288,952</u>	<u>\$ 15,293,416</u>	<u>\$ 15,270,523</u>
<b>Coverage Ratio<sup>(11)</sup></b>	1.41	1.28	1.31	1.35	1.39
<b>Subordinate Contract Payments</b>					
1965 Contract	\$ 3,982,714	\$ 3,982,714	\$ 3,982,714	\$ 3,982,714	\$ 3,982,714
<b>Total Subordinate Contract Payments</b>	<u>\$ 3,982,714</u>	<u>\$ 3,982,714</u>	<u>\$ 3,982,714</u>	<u>\$ 3,982,714</u>	<u>\$ 3,982,714</u>
<b>Remaining Balance</b>	<u>\$ 2,628,199</u>	<u>\$ 382,164</u>	<u>\$ 803,734</u>	<u>\$ 1,348,170</u>	<u>\$ 1,912,363</u>

(1) Based on District’s adjusted budget for Fiscal Year 2013.

(2) Based on water sales as set forth in the table entitled “Westlands Water District Projected Water Usage” under the caption “—Projected Water Usage,” including 40% allocation of CVP Contract Water entitlements in water year 2012-13 and projected 40% allocation thereafter. See the caption “—District Water Charges.”

(3) Assumes that municipal and industrial water sales Revenues will increase by an average of approximately 3% per annum as a result of increases in water rates to cover inflation in water purchase costs. Any such increases are subject to the notice, hearing and protest procedures of Proposition 218 described under the caption “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.” There can be no assurance that the Board will adopt such rate increases as projected, or that District landowners will not approve an initiative to repeal or modify such rate increases in the future.

(Footnotes Continued on Following Page)



(Continued from Previous Page)

- (4) Investment earnings on certain District funds at assumed rate of 1% per annum.
- (5) Reflects acreage charges described under the caption “—District Water Charges—Acreage Charges.”
- (6) Includes late charges, meter rentals, other equipment rentals, installation fees, miscellaneous income (e.g. sale of assets such as trucks) and prior year items.
- (7) Reflects projected water sales as set forth in the table titled “Projected Water Usage” under the caption “—Projected Water Usage.”
- (8) Reflects payments of 100% of principal of and interest on the 2009 Notes and projected refinancing of 2009 Notes before March 1, 2014.
- (9) Proceeds of financing expected to refund 2009 Notes.
- (10) All Contract Payments reflect gross amounts accruing during the respective Fiscal Year. The Series 2008A Installment Payments allocable to \$25,450,000 of the Series 2008A Certificates projected at the Amended 2005 Swap Agreement fixed rate of 3.017% per annum and the remaining \$250,000 of Series 2008A Installment Payments projected at 3.017% per annum.
- (11) Equals Net Revenues divided by Total Contract Payments.

Source: District.

## **Investment of District Funds**

All funds held by the District are invested in accordance with the District’s Investment Policy. The primary objectives, in priority, are safety of principal, liquidity, and yield. The comprehensive Investment Policy was adopted by the District in March 2007 and is approved or revised as required by California law. The District currently holds approximately \$45 million in unrestricted reserve funds, which it invests in accordance with the Investment Policy.

All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

The District’s Investment Policy may be changed at any time by the Board (subject to the State law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under State law or the Investment Policy or that the objectives of the District with respect to investments or its investment holdings at any point in time will not change.

## **Outstanding Obligations**

In addition to the Installment Purchase Agreement, the District has outstanding obligations as described below.

***Joint Powers Agencies Obligation.*** The Authority has issued certain Revenue Notes (DHCCP Development Project), Series 2009A in the aggregate principal amount of \$50,000,000 (the “2009 Notes”). In connection with the issuance of the 2009 Notes, the District entered into the San Luis & Delta-Mendota Water Authority Delta Habitat Conservation and Conveyance Program Activity Agreement, dated as of March 1, 2009 (the “Activity Agreement”), by and between the District and the Authority. Pursuant to the Activity Agreement, the District is obligated to pay all principal of and interest due on the Notes, subject to reimbursement of certain amounts by other Authority members. The District’s payment obligations under the Activity Agreement with respect to the 2009 Notes are payable prior to the payments of principal of and interest on the 2012 Bonds as an Operation and Maintenance Cost of the District.

The 2009 Notes mature on March 1, 2014. The District does not currently have, and does not currently project having on the maturity date of the 2009 Notes, sufficient unrestricted reserves to pay the principal of the 2009 Notes at maturity. See the caption “—Investment of District Funds.” As a result, the District’s ability to make payments under the Activity Agreement with respect to the 2009 Notes is dependent on the Authority’s ability to issue and sell refunding obligations prior to the maturity of the 2009 Notes.

While the Authority has covenanted to use commercially reasonable efforts to issue obligations to refund the 2009 Notes prior to maturity, a variety of events could prevent access to the municipal securities

market, prohibit the Authority from issuing such bonds, notes or other obligations, or make the issuance of such bonds, notes or other obligations prohibitively expensive. Also, additional authorization for the issuance of such bonds, notes or other obligations must be obtained by the Authority and the Financing Participants prior to the issuance thereof. No assurance can be given that such a financing will be available to the Authority on sufficiently favorable terms.

***Other District Installment Purchase Agreements.*** The District has entered into the Series 2002A Installment Purchase Agreement with the Corporation, the Series 2002A Installment Payments under which are payable from Net Revenues. The Series 2002A Installment Payments are applied to the payment of the Westlands Water District Revenue Certificates of Participation, Series 2002A (the “Series 2002A Certificates”). As of June 30, 2012, the Series 2002A Certificates were outstanding in the aggregate principal amount of \$87,155,000. The District expects to refund all of the outstanding 2002A Certificates from the proceeds of the 2012 Bonds. See the caption “THE REFUNDING PLAN.”

The District has entered into the Series 2005A Installment Purchase Agreement with the Corporation, the Series 2005A Installment Payments under which are payable from Net Revenues on a parity with the 2012 Bonds. The Series 2005A Installment Payments are applied to the payment of the Westlands Water District Revenue Certificates of Participation, Series 2005A (the “Series 2005A Certificates”). As of June 30, 2012, the Series 2005A Certificates were outstanding in the aggregate principal amount of \$50,935,000.

The District has entered into the Series 2007A Installment Purchase Agreement with the Corporation, the Series 2007A Installment Payments under which are payable from Net Revenues on a parity with the 2012 Bonds. The Series 2007A Installment Payments are applied to the payment of the Westlands Water District Revenue Certificates of Participation, Series 2007A (the “Series 2007A Certificates”). As of June 30, 2012, the Series 2007A Certificates were outstanding in the aggregate principal amount of \$34,120,000.

The District has entered into the Series 2007B Installment Purchase Agreement, the Series 2007B Installment Payments under which are payable on a parity with the 2012 Bonds. The Series 2007B Installment Payments are applied to the payment of the Westlands Water District Revenue Certificates of Participation, Series 2007B (the “Series 2007B Certificates”). As of June 30, 2012, the Series 2007B Certificates were outstanding in the aggregate principal amount of \$19,455,000.

The District has entered into the Series 2008A Installment Purchase Agreement (the “2008A Installment Purchase Agreement”), the Series 2008A Installment Payments under which are payable on a parity with the 2012 Bonds. The Series 2008A Installment Payments are applied to the payment of the Westlands Water District Adjustable Rate Refunding Revenue Certificates of Participation, Series 2008A (the “Series 2008A Certificates”). As of June 30, 2012, the Series 2008A Certificates were outstanding in the aggregate principal amount of \$25,700,000.

***Interest Rate Swap Agreement.*** On August 26, 2005, the District entered into the Series 2005B Swap Agreement with Citibank in connection with the execution and delivery of certain certificates of participation (the “Series 2005B Certificates”). Under the Series 2005B Swap Agreement, the District expected to effectively fix its interest rate exposure with respect to the Series 2005B Certificates, taken together with the Series 2005B Swap Agreement, without affecting the nature of the District’s obligations to make payments on the Series 2005B Certificates.

In connection with the prepayment of the Series 2005B Certificates from the proceeds of the Series 2008A Certificates, the District entered into the Amended and Restated Confirmation, which modified, among other provisions, the fixed rate payable by the District under the Series 2005B Swap Agreement in an effort to effectively fix the District’s interest rate exposure with respect to certain Series 2008A Certificates. The obligation of the District to make certain scheduled payments to Citibank, N.A. (“Citibank”) under the Amended 2005 Swap Agreement is on a parity with the obligation of the District to make the payments of principal of and interest on the 2012 Bonds.

Under certain circumstances, the Amended 2005 Swap Agreement may be terminated and the District may be required to make a substantial termination payment to Citibank. Any such termination payment owed by the District would be payable on a basis that is subordinate to the scheduled payments under the Amended 2005 Swap Agreement. Under certain circumstances, Citibank may be obligated to make a payment to the District under the Amended 2005 Swap Agreement that is less than the interest due on the associated Series 2008A Certificates to which the Amended 2005 Swap Agreement relates. In such event, the District would be obligated to pay such insufficiency from Revenues.

The agreement by Citibank to pay certain amounts to the District pursuant to the Amended 2005 Swap Agreement does not alter or affect the District's obligation to pay the scheduled payments under the Amended 2005 Swap Agreement from which the payments of principal of and interest on the 2012 Bonds are payable. Neither the owners of the 2012 Bonds nor any other person (other than the District) have any rights under the Amended 2005 Swap Agreement or against Citibank.

***Bureau Contracts.*** The District has outstanding obligations to the Bureau under the 1965 Contract for distribution and drainage collector systems in the approximate principal amount of \$23,974,338, which is payable in semi-annual installments of \$1,991,357 and which mature in 2018. The 1965 Contract is a general obligation of the District and is payable from assessments on land within the District. The 1965 Contract does not contain a priority of payment provision.

***Other Contracts.*** The District has entered into the 1995 Irrigation System Improvement Program, a State of California Revolving Fund Loan Program, an unsecured obligation of the District which is collateralized by lease payments from water users on irrigation equipment in the approximate outstanding principal amount of \$245,881, which is payable in annual installments of \$65,844 through 2016, including interest at 2.80% per annum, and the 1998 Irrigation Improvement Project, a State of California Revolving Fund Loan Program an unsecured obligation of the District which is collateralized by lease payment from water users on irrigation equipment in the approximate outstanding principal amount of \$2,044,924, which is payable in annual installments of approximately \$323,293 through 2019, including interest at 2.60% per annum. These State Revolving Funds loans and obligations of the District are payable on a parity with the 2012 Bonds. The State Revolving Funds loans and obligations, as well as the 2005A Installment Payments, the 2007A Installment Payments, the 2007B Installment Payments, and the 2008A Installment Payments are collectively referred to herein as "Parity Payments."

***Credit Facility Agreement.*** The District entered into a Letter of Credit Reimbursement Agreement, dated September 28, 2011, with Cooperatieve Centrale Raiffeisen Boerenleenbank B.A., acting through its New York Branch (the "Credit Facility Agreement") pursuant to which Cooperatieve Centrale Raiffeisen Boerenleenbank B.A. ("Rabobank") issued an irrevocable, direct-pay Letter of Credit to support the Series 2008A Certificates. Amounts payable to the Credit Facility Agreement are payable from Net Revenues on a parity with the obligation of the District to pay principal of and interest on the 2012 Bonds.

Under the Credit Facility Agreement, the District is required to reimburse Rabobank for any amounts paid by Rabobank on the same day such amount is paid. Amounts owed to Rabobank bear interest at a specified rate. The District is also required to pay certain fees to Rabobank, including establishment, facility, drawing and transfer fees, in addition to Rabobank's costs, expenses and certain taxes.

In the event that there is a drawing on the Credit Facility Agreement to purchase any Series 2008A Certificates which are tendered for purchase by the holders thereof, the Credit Facility Agreement provides that Rabobank becomes the holder of such obligations ("Bank Bonds"). The District is required to repay such Bank Bonds over a period that is less than the remaining term to maturity of the Series 2008A Certificates, at an increased interest rate.

The Credit Facility Agreement contains a number of covenants and agreements on the part of the District, and specifies events of default (which includes the failure of the District to maintain a credit rating at

a specified level), and remedies. Remedies of Rabobank include the right to cause a mandatory tender of the Series 2008A Certificates. The obligations of the District pursuant to the Credit Facility Agreement are payable on a parity with the Series 2008A Certificates.

The Credit Facility Agreement is scheduled to expire on September 28, 2016, unless extended in accordance with its terms. If the Credit Facility Agreement expires and the District is unable to secure a replacement credit facility agreement, the Series 2008A Certificates will be subject to mandatory tender for purchase by the holders thereof upon such expiration. In addition, the Credit Facility Agreement will be drawn upon to pay the purchase price of such tendered Series 2008A Certificates.

From time to time rating agencies change the ratings of banks that have issued credit facility agreements. In the event that Rabobank's rating is reduced, such reduction may result in the Series 2008A Certificates bearing interest at a higher than projected interest rate or result in the downgrade of the rating of the Series 2008A Certificates, or both. Under the Credit Facility Agreement, the maximum annual interest rate payable by the District is 12%.

Both Moody's and Standard & Poor's have recently downgraded banks which have executed and issued credit facility agreements. The banking industry, domestic and international banks (including Rabobank), may face ongoing review from credit rating agencies. There can be no assurance that rating reductions or other factors perceived to have an effect on, or to reflect, the credit quality of Rabobank which have occurred or which occur in the future will not result in a material increase in interest payments on the Series 2008A Certificates.

### **Future Financings**

**DHCCP.** Pursuant to a Memorandum of Agreement Regarding Collaboration on the Planning Preliminary Design and Environmental Compliance for the Delta Habitat Conservation and Conveyance Program in Connection with the Development of the Bay Delta Conservation Plan (the "MOA"), dated December 10, 2008, the Authority, the California Department of Water Resources ("DWR"), the Bureau, the Santa Clara Valley Water District (a member of the Authority referred to as "SCVWD"), the State Water Project Contractors Authority (the "SWPCA"), the Metropolitan Water District of Southern California, ("MWD") and the Kern County Water Agency ("KCWA") (each a member of the SWPCA), and the District (a member of the Authority) have agreed to undertake certain planning, the preliminary design and environmental compliance activities referred to as the Delta Habitat Conservation and Conveyance Program ("DHCCP") with respect to certain water conservation and conveyance facilities (the "Isolated Facility"). If implemented in accordance with the MOA, the District expects that the Isolated Facility will provide enhanced environmental protection to the Bay-Delta (see the caption "STATE AND FEDERAL REGULATORY ACTIVITIES—Bay-Delta Matters") and increase the reliability of deliveries under the Water Contracts.

Pursuant to the MOA, 50% of the DHCCP planning, preliminary design, and environmental compliance actions ("Planning Phase") costs are allocated to the Authority (including the District and SCVWD) (the "Federal Share") with the remaining 50% of such costs being allocated to DWR (including SWPCA, MWD and KCWA). The current DWR estimated cost of the DHCCP Planning Phase through the currently expected June 30, 2013 issuance of a record determination (the "ROD") is \$240,000,000 ("DHCCP Development Costs"), which is an increase of approximately \$100,000,000 since 2009. It is uncertain at this time whether the 2009 Note proceeds, together with cash contributed by certain Authority members, cash and in kind services contributed by the Bureau and certain prepayments of obligations owed by certain Authority members to the Bureau will be sufficient to fully fund the current estimated share of DHCCP Planning Phase costs allocated to the Authority and its members, including substantially all of these increased DHCCP Planning Phase costs.

In the event that additional Authority funds are required under the MOA and related documents to pay the currently estimated DHCCP Planning Phase costs (or if there is a further cost increase for the DHCCP

Planning Phase), the District would need to determine whether to continue its participation in the DHCCP. If the District elected to continue to participate in the DHCCP, the District would need to develop a funding plan for its share of such DHCCP Planning Phase. Potential sources of funding could include District reserves, proceeds of District borrowings or proceeds of additional development notes issued by the Authority.

DWR, State Water Project contractors, and the Authority are currently considering how to finance the cost of design, engineering and certain other pre-construction costs starting in mid-2013, assuming State Water Project contractors and Authority members, including the District, elect to continue participation in the DHCCP. While the amount and timing of such pre-construction costs are currently under review by the Authority, no final decisions have been made by the District at this time.

***Isolated Facility.*** Based on the February 2012 Administrative Draft of the Bay Delta Conservation Plan (the “Administrative Draft”), the design, engineering and other pre-construction costs and the cost of construction of the Isolated Facility by DWR is approximately \$14.2 billion. However, this cost estimate was based on 2010 dollars and is for a project that is substantially different than the “preferred proposal” announced by Governor Edmund G. “Jerry” Brown and Secretary of the Interior Ken Salazar on July 25, 2012. The facilities for which the \$14.2 billion estimate was prepared included five intakes, with a capacity of 15,000 cubic feet per second and an intermediate pumping plant. The “preferred proposal” described by Governor Brown and Secretary Salazar would include three intakes, with a capacity of 9,000 cubic feet per second and would be a gravity system. An estimate of the cost to build the “preferred proposal” facilities is currently being prepared by DWR and is expected to be released in October.

Based upon the cost allocations contained in the Administrative Draft, approximately 75% of the costs of the Isolated Facility are expected to be funded by users of the Isolated Facility, including the District. Based on costs and yield information projected in the Administrative Draft, and assuming that all State and CVP water delivered south of the Delta share proportionately in the cost of the DHCCP on a per acre foot basis, the District share of such costs would be approximately \$2.4 billion.

The District has not made a formal decision on whether to participate in the cost of the construction of the Isolated Facility and no formal decision is expected to be made until the ROD is finalized in mid 2013 and potential litigation with respect thereto is resolved. In the event that the District elected to participate in the cost of the construction of the Isolated Facility, the District could elect to finance all or a portion of such cost, either directly, through the Authority or through another joint powers entity. How such costs are financed could affect whether the costs are treated as Operation and Maintenance Costs or Debt Service under the Indenture. Construction of the Isolated Facility, if commenced in 2017 as currently projected, would not be completed until at least 2026.

***Habitat Restoration.*** The District is a member of the State and Federal Contractors Water Agency (“SFCWA”). SFCWA is currently developing several habitat restoration programs in the Bay-Delta to support the Bureau of Reclamation and the California Department of Water Resources in complying with certain biological opinions discussed under the caption “STATE AND FEDERAL REGULATORY ACTIVITIES—Bay-Delta Matters.” The District expects that capital and operating costs for such habitat restoration which are funded by SFCWA and allocated to CVP contractors would be paid by the Bureau and passed through to CVP contractors (including the District). The District will evaluate the financial and other merits of participating in the SFCWA programs when presented to the SFCWA board of directors later this year or next. If the District participated in the SFCWA bridge loan financing program, it expects that no cost of the financing would be payable directly by the District except on a temporary basis.

***Additional Program Elements.*** The current District water acquisition program (the “Program”) contemplates acquiring additional long term Supplemental Water entitlements. If certain elements of the Program are implemented, the District would expect to enter into additional Contracts to finance such components.

***District Distribution System Expansion.*** In addition, 70,000 acres of the District's service area is served by temporary irrigation systems installed by District landowners. The District may, at some point in the future, elect to construct permanent facilities to serve these lands, although there are not currently any plans to do so at this time. If such facilities are constructed, the District may elect to enter into additional Contracts to finance them.

***Drainage Facilities.*** In connection with current drainage activities (see the caption "—Drainage"), the District may determine to undertake the development of capital activities. If undertaken, the District may elect to enter into additional Contracts to finance such capital activities.

## **CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES**

### **Article XIII B**

The State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State 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 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 the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "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 of 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 the voters 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.

The District is of the opinion that the rates imposed by the District do not exceed the costs that the District reasonably bears in providing water service. The District will covenant in the Indenture that, to the fullest extent permitted by law, it will prescribe rates and charges sufficient to provide Net Revenues for payment of principal of and interest on the 2012 Bonds in each year.

### **Proposition 218**

***General.*** An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

***Article XIII D.*** Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A

“property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIID 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.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the “*Bighorn Case*”), however, that fees for ongoing water service through an existing connection were properly-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218.

Commencing with fiscal year 2007-08, the District has complied with the notice, hearing and protest procedures in Article XIID with respect to water rate increases based on the Supreme Court decision in the *Bighorn Case*. The District has complied with the notice and public hearing requirements of Article XIID with respect to land-based charges since the approval of Article XIID.

**Article XIIC.** Article XIIC provides that the initiative power shall 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 shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The District does not believe that Article XIIC grants to the voters within the District the power to repeal or reduce the water 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 2012 Bonds. Remedies available to beneficial owners of the 2012 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 2012 Bonds and 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. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

The District believes that its current water rates and land based charges comply with the requirements of Proposition 218 and expects that any future water 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 State 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 XIII D. 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 will affect its ability to levy rates and charges for Water Service.

### **Future Initiatives**

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiatives could be proposed and adopted affecting the District's revenues or ability to increase revenues.

### **APPROVAL OF LEGAL PROCEEDINGS**

The valid, legal and binding nature of the 2012 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each 2012 Bond. Certain legal matters will be passed upon for the District by its special counsel, Kronick Moskowitz Tiedemann & Girard, Fresno, California, for the Underwriter by its counsel, Ballard Spahr LLP, Salt Lake City, Utah, for AGM by its counsel and for the Trustee by its counsel.



## **LITIGATION**

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2012 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 Indenture, the 2012 Bonds or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the 2012 Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

There are no pending suits contesting or affecting the collection of the District Revenues or which would have a material adverse effect on the District's Water System, the financial condition of the District, including the ability of the District to pay principal of and interest on the 2012 Bonds.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2012 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 on the 2012 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2012 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.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2012 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 complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2012 Bonds to assure that interest on the 2012 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 Bonds. The District has covenanted to comply with all such requirements.

The amount by which a 2012 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2012 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 Code; such amortizable bond premium reduces the 2012 Bond Owner's basis in the applicable 2012 Bond (and the amount of tax-exempt interest received with respect to the 2012 Bonds), 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 2012 Bond Owner realizing a taxable gain when a 2012 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012 Bond to the Owner. Purchasers of the 2012 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 2012 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2012 Bonds might be affected as a result of such an audit of the 2012 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 2012 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2012 Bonds or their market value.

It is possible that subsequent to the issuance of the 2012 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 2012 Bonds or the market value of the 2012 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the 2012 Bonds. Before purchasing any of the 2012 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 2012 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. The Indenture and the Tax Certificate relating to the 2012 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2012 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2012 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 2012 Bonds and the accrual or receipt of interest on the 2012 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 2012 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2012 Bonds.

## **RATINGS**

The District expects that Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") will assign the 2012 Bonds the rating of "AA-" (stable outlook) based upon the delivery of the Policy by AGM at the time of issuance of the 2012 Bonds. The District also expects that S&P will assign the 2012 Bonds the uninsured rating of "A+" without regard to the Policy and Fitch Ratings, Inc. ("Fitch") will assign the 2012 Bonds the uninsured rating of "AA-" without regard to the Policy. There is no assurance that any credit rating given to the 2012 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P or Fitch, respectively, if, in the judgment of S&P or Fitch, as applicable, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2012 Bonds. Such ratings reflect only the views of S&P and Fitch, respectively, and an explanation of the significance of such ratings may be obtained from S&P and Fitch.

## **UNDERWRITING**

The 2012 Bonds will be purchased by Citigroup Global Markets Inc. (the "Underwriter") pursuant to a Purchase Contract, dated October 11, 2012 (the "Purchase Contract"), by and between the District and the Underwriter. Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2012 Bonds for an aggregate purchase price of \$87,101,325.70 (representing the principal amount of the 2012 Bonds, less an Underwriter's discount of \$479,361.70, plus an original issue premium of \$10,580,687.40). The Purchase Contract provides that the Underwriter will purchase all of the 2012 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

Citigroup Inc., parent company of Citigroup Global Markets Inc., the Underwriter of the 2012 Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Bonds.

Citigroup Global Markets Inc. has also entered into a master distribution agreement (the “Master Distribution Agreement”) with TheMuniCenter L.L.C. (“TMC”), for the distribution to retail investors of certain municipal securities offerings at their original issue prices. TMC has established an electronic primary offering application platform through which certain TMC approved users that are also broker-dealers or municipal securities dealers can submit orders for and receive allocations of new issue municipal securities at the original issue price for their retail customers. Pursuant to the Master Distribution Agreement (if applicable for this transaction), Citigroup Global Markets Inc. may share with TMC a portion of its underwriting compensation with respect to any 2012 Bonds that are allocated to a TMC user. The TMC users permitted to participate in the remarketing of the 2012 Bonds may also share a portion of the compensation received by Citigroup Global Markets Inc. with respect to any 2012 Bonds allocated to such TMC user pursuant to the terms of a Member Addendum to the TMC user’s Trading Authorization User Agreement with TMC. Citigroup Financial Products Inc., an affiliate of Citigroup Global Markets Inc., owns a 31.35% equity interest in TheDebtCenter L.L.C., the parent company of TMC.

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2012 Bonds to certain dealers (including dealers depositing 2012 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

#### **CONTINUING DISCLOSURE UNDERTAKING**

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the 2012 Bonds to provide certain financial information and operating data relating to the District by not later than the 270 days following the end of the District Fiscal Year (currently the District Fiscal Year ends on the last day of February) (the “District Annual Report”), commencing with the report for the District Fiscal Year ending February 28, 2013, and to provide notices of the occurrence of certain enumerated events. The District Annual Report and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”). The specific nature of the information to be contained in the District Annual Report and the notice of material events is set forth in Appendix E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

The District has not failed to comply with the terms of its existing continuing disclosure agreements in the last five years in any material respect.

## **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 2012 Bonds.

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

## **WESTLANDS WATER DISTRICT**

By:                                 /s/ Don Peracchi                                  
President, Board of Directors

**APPENDIX A**

**WESTLANDS WATER DISTRICT FINANCIAL STATEMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**WESTLANDS WATER DISTRICT**

---

**REPORT ON AUDITED  
FINANCIAL STATEMENTS**

---

**YEAR ENDED FEBRUARY 29, 2012**

**WESTLANDS WATER DISTRICT**  
**Audited Financial Statements – Table of Contents**

**Independent Auditors' Report**

**Supplementary Information**

Management's Discussion and Analysis	2-5
--------------------------------------	-----

**Audited Financial Statements**

Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8-9
Notes to Financial Statements	10-27

**Single Audit Reports**

Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	28-29
Report on Internal Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	30-31
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs	34-35
Status of Prior Year Findings	36





Sampson, Sampson & Patterson, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102  
Clovis, California 93612-4739  
(559) 291-0277 • FAX (559) 291-6411

July 3, 2012

Board of Directors  
Westlands Water District  
Fresno, California

#### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Westlands Water District (the "District") as of and for the year ended February 29, 2012 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Westlands Water District as of February 29, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012, on our consideration of Westlands Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

*Sampson, Sampson & Patterson, LLP*

# WESTLANDS WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## Overview

The following management's discussion and analysis of Westlands Water District (the District) provides an overview of the financial activities and transactions for fiscal year 2011-2012 in the context of the requirements of the Governmental Accounting Standards Board No. 34, Basic Financial Statements; Management's Discussion and Analysis for State and Local Governments, as amended. This discussion and analysis should be read in conjunction with the District's audited financial statements and accompanying notes.

## Financial Reporting and Explanation of Financial Statements

The District's accounting records are maintained in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The District's financial statements include the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. The statement of net assets provides information about assets and obligations of the District at a specific point in time. The statement of revenues, expenses and changes in net assets provides information regarding the District's operations during the fiscal year indicated. The statement of cash flows reports cash sources and cash uses for operations, capital financing and investing activities.

## Financial Summary

The following is a condensed presentation of assets and liabilities as of February 29, 2012 and February 28, 2011:

	2012	2011	% Change
<b>Assets</b>			
Current assets	\$127,642,160	\$114,584,279	11%
Utility plant, net of accumulated depreciation	118,025,154	120,329,285	(2%)
Other assets	266,281,455	231,933,661	15%
Total assets	511,948,769	466,847,225	
<b>Liabilities</b>			
Current liabilities	65,676,295	65,569,505	0%
Debt borrowings, net of current maturities	288,520,170	248,450,525	16%
Other liabilities	13,142,624	9,928,102	32%
Total liabilities	367,339,089	323,948,132	
<b>Net Assets</b>			
Total net assets	\$144,609,680	\$142,899,093	1%

## Current Assets

Current assets increased in fiscal year 2011-2012 by \$13.1 million or 11%. Prepaid water costs decreased by \$4.8 million as less water was rescheduled for use in the 2012-2013 fiscal year. Accounts receivable increased by \$1.5 million, for water and land-based charges, offset by decreases in miscellaneous receivables. Cash and cash equivalents increased approximately \$16.2 million partially due to a decrease in prepaid water applicable to 2012-2013 and an increase in deferred revenue for land leases applicable to 2012-2013.

# WESTLANDS WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## Utility Plant

New construction and fixed asset additions amounted to approximately \$0.7 million, offset by retirements and depreciation of \$3.1 million, resulting in a net decrease of \$2.4 million or 2%.

## Other Assets

Other assets increased by \$34.3 million or 15%. The majority of this is due to including a long-term receivable of \$18.5 million for financing participants in the SLDMWA revenue notes and other deferred charges of \$31.5 million related to the debt. Land & water rights acquisitions amounted to \$1.0 million while the amortization of water rights of \$4.1 million resulted in a net decrease of \$3.1 million. The deferred outflow for the change in value of the District's swap agreement related to the Certificates of Participation 2008A increased \$1.7 million. Funds previously contributed for the Delta Habitat Conservation and Conveyance Program (DHCCP) of \$14.4 million were reclassified as a prior period adjustment or expensed.

## Current Liabilities

Current liabilities decreased by less than 1% or \$0.1 million. Accounts payable decreased \$1.8 million while the current portion of long-term debt increased \$0.2 million and deferred revenue increased \$1.7 million primarily from land-based charges applicable to fiscal year 2012-2013.

## Debt Borrowings

Debt borrowings increased by \$40.1 million or 16% due to the decision to include the revenue bonds issued by the San Luis Delta Mendota Water Authority. More information on this debt is included in Note I.

## Other Liabilities

Other liabilities increased by \$3.2 million or 32%. Approximately \$1.5 million of this is from the NASL reserve account used for Navy's portion of the debt service payment to increase their water supply. Another \$1.7 million is from the change in value of the District's swap agreement related to the Certificates of Participation 2008A.

The following is a condensed presentation of the revenues, expenses and changes in net assets for the fiscal years ended February 29, 2012, and February 28, 2011:

	2012	2011	% Change
<b>Revenues and Expenses</b>			
Operating revenues	\$ 124,589,179	\$ 146,969,729	(15%)
Operating expenses	(121,938,558)	(143,648,388)	(15%)
Non-operating gains and losses	7,418,844	8,357,791	(11%)
Net income	<u>\$ 10,069,465</u>	<u>\$ 11,679,132</u>	
<b>Changes in Net Assets</b>			
Net assets – beginning of year	\$ 142,899,093	\$ 131,219,961	
Changes in net assets:			
Prior period adjustment	(8,358,878)		
Net income	10,069,465	11,679,132	
Net assets – end of year	<u>\$ 144,609,680</u>	<u>\$ 142,899,093</u>	

## Operating Revenues

Operating revenues decreased by \$22.4 million, compared to fiscal year 2010-2011. Revenues from water sales decreased \$22.9 million as less supplemental water was required in 2011-2012 due to the increased CVP water supply. Land-based charges revenue increased approximately \$1.0 million, half collected on

## WESTLANDS WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

behalf of landowners within the drainage service area and the other half for increased District operations and maintenance costs. Water sales to municipal & industrial (M&I) users decreased \$0.4 million.

### Operating Expenses

Operating expenses decreased by \$21.7 million from the prior fiscal year. Water expenses decreased due to increased CVP water supply in 2011-2012. Transmission and distribution expenses decreased as certain maintenance items were deferred. General and administrative expenses declined mainly due to decreased legal and consulting expenses.

### Non-Operating Gains and Losses

Non-operating gains and losses decreased by \$0.9 million or 11% from fiscal year 2010-2011. Approximately \$2.1 million less was collected for contract repayment and Certificates of Participation repayment due to surplus revenue carried over from 2010-2011. Miscellaneous revenues increased \$1.4 million, primarily due to a litigation settlement agreement. Grant revenue decreased \$0.2 million as the funds to supplement the District's irrigation system improvement lease program neared completion.

### Capital Assets

The District's investment in capital assets (utility plant) as of February 29, 2012, amounts to \$118,025,154 (net of accumulated depreciation). This investment includes land, distribution and drainage system, buildings, vehicles and equipment, but excludes properties acquired under certain land and water acquisition programs. The total decrease in the District's investment in capital assets was approximately 2%.

	2012	2011
Land	\$ 1,074,138	\$ 1,074,138
Construction in Progress	1,475,350	1,473,141
Land Improvements	17,561	17,561
Distribution System	174,902,552	174,813,218
Drainage System	20,433,960	20,433,960
Buildings	5,486,249	5,121,773
Furniture & Fixtures/Information Systems	1,604,534	1,556,338
Communication Equipment	121,052	121,052
Survey Equipment & Small Tools	79,141	79,141
Autos/Trucks	1,569,623	1,479,225
Shop Equipment	410,686	410,686
Field Equipment	1,583,435	1,577,288
Fishing Club Assets	2,142,777	2,142,777
	<u>210,901,058</u>	<u>210,300,298</u>
Less Accumulated Depreciation	<u>(92,875,904)</u>	<u>(89,971,013)</u>
Net Utility Plant	<u>\$ 118,025,154</u>	<u>\$ 120,329,285</u>

Major capital asset events during the 2011-2012 fiscal year included the following:

- Chip seal of a portion of the Coalinga Canal service road totaled \$157,337.
- Roof replacement at the Pleasant Valley Pumping Plant amounted to \$20,000.
- The flooring project at the Fresno office totaled \$74,483.
- Concrete replacement at the Five Points field office cost \$74,875.
- Purchase of a milling machine amounted to \$60,561.
- Vehicle replacements totaled \$146,245.

Additional information on the District's capital assets may be found in Note E.

## **WESTLANDS WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Long-term Debt**

At the end of fiscal year 2011-2012, the District had outstanding long-term debt of \$288.5 million, net of deferred amounts, which is an increase of 16%. This is primarily due to the inclusion of the San Luis Delta Mendota Water Authority revenue notes.

Detail on the District's long term debt may be found in Note I.

### **Economic Factors and Next Year's Budget and Rates**

The District is currently operating under an interim water service contract (IRC) with the Bureau of Reclamation (Reclamation) which expires on February 28, 2014. An interim contract is required because long-term contract renewals have been delayed due to Reclamation's re-initiation of formal consultation with the Fish and Wildlife Service on the Central Valley Project's (CVP) Operation Criteria and Plan for the Delta. CVP water delivered under the interim water service contract is subject to Reclamation's Cost of Service Rate, which includes operations, maintenance and capital facilities costs. Given the repeated delays in the Bureau's completion of the required environmental reviews, as well as the possibility of legal challenges, the District believes it is unlikely that long term renewals of the Water Contracts will occur prior to the current February 28, 2014, termination date of the IRC. The District has requested that the IRC be renewed on an interim basis on substantially the same terms and conditions as the current IRC and expects such renewal to be executed by the Bureau prior to February 28, 2014, as required under the IRC.

The District's contract with Reclamation entitles it to receive up to 1,191,383 acre feet of water per fiscal year. The District received 80% of its entitlement in the 2011-2012 fiscal year. The 2012-2013 Budget and rates were based upon a 45% water supply allocation. The allocation as of April 13, 2012 was 40%, up from the initial allocation of 30%. Rates have not been adjusted to reflect the lower allocation.

Beginning in fiscal year 2010-2011, to help alleviate the burden on water users for the increased cost of water in short water supply years, the District's Board elected to collect one-half of the operations & maintenance charges through a land-based charge to landowners rather than through the water rate. In fiscal year 2012-2013, all lands will pay a base rate of \$5.6218 per acre with additional components ranging from \$3.2908 per acre to \$17.1696 per acre depending on whether the lands have distribution system and/or receive an allocation of CVP water. The base rate represents an increase of \$0.6058 per acre, with the additional components increasing \$0.3548 to \$1.8524 per acre from fiscal year 2011-2012.

The District is continually engaged in efforts to increase its water supply from outside sources. The annual debt service to finance these acquisitions is collected through a land-based charge. In fiscal year 2012-2013 the rate for long-term water supply acquisitions increased by \$0.0909 per acre over the 2011-2012 rate. District water supply rates decreased \$1.2249 per acre for Area I and \$2.8540 for Area II from the 2011-2012 rates. The amount collected for extraordinary pipe repair decreased \$0.0167 from the 2011-2012 rate.

**WESTLANDS WATER DISTRICT  
STATEMENT OF NET ASSETS  
FEBRUARY 29, 2012**

	Water District	Enterprise Funds Other	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 69,908,360	\$	\$ 69,908,360
Accounts receivable – water users and others	39,712,280		39,712,280
Operating supplies	2,755,959		2,755,959
Prepaid water and other current assets	15,265,561		15,265,561
Total current assets	127,642,160		127,642,160
Utility plant, net of accumulated depreciation	116,257,490	1,767,664	118,025,154
Other assets:			
Restricted assets	12,369,595		12,369,595
Advances to water users	642,000		642,000
Real property held	105,991,215		105,991,215
Water rights, net of accumulated amortization	86,593,532		86,593,532
Long term notes and financing receivables	23,397,496		23,397,496
Debt issue costs, net of accumulated amortization	2,045,952		2,045,952
Derivative -- deferred outflow	3,756,635		3,756,635
Other deferred charges	31,480,205		31,480,205
Due from other funds		4,825	4,825
Total other assets	266,276,630	4,825	266,281,455
Total assets	510,176,280	1,772,489	511,948,769
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	19,064,410		19,064,410
Accrued payroll and related liabilities	793,500		793,500
Deferred revenue	35,928,192		35,928,192
Current maturities of debt borrowings	9,890,193		9,890,193
Total current liabilities	65,676,295		65,676,295
Debt borrowings, net of current maturities	288,520,170		288,520,170
Payable from designated or restricted assets	8,739,164		8,739,164
Water exchange payable and other water user deposits	642,000		642,000
Derivative instrument -- swap	3,756,635		3,756,635
Due to other funds	4,825		4,825
Total liabilities	367,339,089		367,339,089
<b>Net Assets</b>			
Invested in capital assets, net of related debt	63,624,681	1,772,489	65,397,170
Restricted for specific purposes	12,369,595		12,369,595
Unrestricted	66,842,915		66,842,915
Total net assets	\$142,837,191	\$1,772,489	\$144,609,680

See independent auditors' report and notes to financial statements.

**WESTLANDS WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED FEBRUARY 29, 2012**

	Water District	Enterprise Funds Other	Total
<b>Operating Revenues</b>			
Irrigation water sales	\$109,590,756	\$	\$109,590,756
Municipal and industrial water sales	1,770,251		1,770,251
Land-based charges	12,838,382		12,838,382
Other operating revenues	171,040	218,750	389,790
Total operating revenues	<u>124,370,429</u>	<u>218,750</u>	<u>124,589,179</u>
<b>Operating Expenses</b>			
Purchased water	90,430,229		90,430,229
Pumping	256,449		256,449
Transmission and distribution	5,733,454		5,733,454
Customer accounts	2,269,017		2,269,017
General and administrative	15,915,535		15,915,535
Depreciation and amortization of water rights	7,066,889	72,860	7,139,749
Other operating expenses	3,377	190,748	194,125
Total operating expenses	<u>121,674,950</u>	<u>263,608</u>	<u>121,938,558</u>
Income (loss) from operations	<u>2,695,479</u>	<u>(44,858)</u>	<u>2,650,621</u>
<b>Non-operating revenues (expenses)</b>			
Grant revenues	1,439,670		1,439,670
Investment income	1,149,500		1,149,500
Interest expense	(12,847,863)		(12,847,863)
Contract repayment	3,768,467		3,768,467
COP repayment	11,989,610		11,989,610
Miscellaneous	1,919,460		1,919,460
Total non-operating revenues (expenses)	<u>7,418,844</u>		<u>7,418,844</u>
Net increase (decrease) in net assets	10,114,323	(44,858)	10,069,465
Net assets – beginning of year	141,081,746	1,817,347	142,899,093
Prior period adjustment	<u>(8,358,878)</u>		<u>(8,358,878)</u>
Net assets – end of year	<u>\$142,837,191</u>	<u>\$1,772,489</u>	<u>\$144,609,680</u>

See independent auditors' report and notes to financial statements.

**WESTLANDS WATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 29, 2012**

	Water District	Enterprise Funds Other	Total
<b>Cash flows from operating activities:</b>			
Cash received from water sales and related activities	\$123,955,235	\$	\$123,955,235
Cash received from other operating activities	171,040	218,750	389,790
Cash payments for water purchases and related activities	(85,655,793)		(85,655,793)
Cash payments to other vendors for other operating activities	(15,732,360)	(132,415)	(15,864,775)
Cash payments to employees and employee benefit programs	(10,423,933)	(58,333)	(10,482,266)
Net cash provided by operating activities	12,314,189	28,002	12,342,191
<b>Cash flows from investing activities:</b>			
Investment income	1,154,952		1,154,952
Loans made for financing receivables	(3,325,198)		(3,325,198)
Principal payments received from financing receivables	2,866,343		2,866,343
Principal payments received from intertie project loans	6,306		6,306
Principal payments received from long-term notes receivable	220,396		220,396
Net cash provided by investing activities	922,799		922,799
<b>Cash flows from noncapital financing activities:</b>			
Transfer to other funds	4,825		4,825
Transfer from other funds		(4,825)	(4,825)
Proceeds from miscellaneous non-operating revenue	3,593,600		3,593,600
Net cash provided (used) by noncapital financing activities	3,598,425	(4,825)	3,593,600
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from contract repayment	3,768,467		3,768,467
Proceeds from COP repayment	11,989,610		11,989,610
Proceeds from debt borrowings	(40,163)		(40,163)
Principal payments on debt borrowings	(9,681,785)		(9,681,785)
Interest payments on debt borrowings	(12,847,863)		(12,847,863)
Amortization of debt issue costs	89,118		89,118
Acquisition and construction of utility plant, net of disposals	(700,649)		(700,649)
DHCCP capital contributions	6,083,961		6,083,961
Purchase of real property, net of disposals	(906,251)		(906,251)
Net changes in payables from restricted/designated assets	1,502,594		1,502,594
Net cash used by capital and financing activities	(742,961)		(742,961)
Net increase in cash and cash equivalents	16,092,452	23,177	16,115,629
Cash and cash equivalents – beginning of year (including \$12,408,199 reported as restricted assets)	66,162,326		66,162,326
Cash and cash equivalents – end of year (including \$12,369,595 reported as restricted assets)	\$ 82,254,778	\$23,177	\$ 82,277,955

See independent auditors' report and notes to financial statements.



**WESTLANDS WATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

	Water District	Enterprise Funds Other	Total
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Income (loss) from operations	\$ 2,695,479	\$ (44,858)	\$ 2,650,621
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization of water rights	7,066,890	72,860	7,139,750
Changes in operating assets and liabilities:			
Accounts receivable – water users and others	(1,965,633)		(1,965,633)
Operating supplies	286,713		286,713
Prepaid water costs and other current assets	4,332,358		4,332,358
Accounts payable and accrued expenses	(1,795,996)		(1,795,996)
Accrued payroll and related liabilities	(27,100)		(27,100)
Deferred revenue	1,721,478		1,721,478
Total adjustments	9,618,710	72,860	9,691,570
Net cash provided by operating activities	<u>\$ 12,314,189</u>	<u>\$ 28,002</u>	<u>\$ 12,342,191</u>

See independent auditors' report and notes to financial statements.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** Westlands Water District (the District) was organized under California state law in 1952 as a California special district. The District administers delivery of water from the United States Bureau of Reclamation's (Reclamation) Central Valley Project to users (primarily consisting of users involved in the Central California agriculture industry) within the District's boundaries covering approximately 614,700 acres. The water is purchased from Reclamation and sold to users at prices designed to cover the cost of purchasing the water, plus the administrative, operating and maintenance expenses of the District.

Reclamation constructed a distribution and drainage system in the 1960s and 1970s to conduct water flow through the District's boundaries. This system provides water service to all but approximately 70,000 acres of District land. The District had two separate contracts, a 20-year and a 40-year contract with Reclamation to repay the construction costs. The obligation for the 20-year contract was completed in December 2000.

The law provides for the election of a governing Board of Directors (the Board) by District land owners, or their representatives, each voting according to the District's assessed value of the land owner's land within the District. The District is not subject to state or federal income taxes. The District accounts for its activities using the public utility accounting system.

The District complies with Generally Accepted Accounting Principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB, in which case, GASB prevails.

**Reporting Entity:** GASB Statement 14 establishes criteria for determining which organization should be included in a governmental reporting entity. The focal point for preparing financial statements of a financial reporting entity is the primary government. The identification of a financial reporting entity is built around the concept of financial accountability. That is, if a primary government is financially accountable for another entity, that entity's financial statements must be included in the financial statements of the reporting entity. Thus, the financial reporting entity consists of the primary government and its component units.

Primary government is defined as a state, general purpose local or special purpose local government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that the exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria and definitions, the District is the primary government and there are no potential component units, which should be included with the accompanying financial statements of the District.

**Method of Accounting:** The District's activities are accounted for as an enterprise fund and are financed and operated in a manner similar to that of a private business enterprise. The District uses the economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The District's funds distinguish revenues and expenses and nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's ongoing operations. The principal operating revenues of the District are water sales and land-based charges. Operating expenses include water purchases and distribution costs, administrative expenses and depreciation and amortization on capital assets and water rights. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District's financial statements are presented in compliance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. These statements established a fundamentally new financial reporting model for all state and local governments including management's discussion and analysis of an entity's financial position and results of operations. GASB 34 also requires the classification of net assets into three components defined as follows:

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

- *Invested in Capital Assets, Net of Related Debt* – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances used to put in place the capital assets.
- *Restricted* – This component consists of net assets with constraints placed on their use by donors, agencies or others outside the District.
- *Unrestricted* – This component consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Under GASB 34, the Statement of Cash Flows is required to be presented using the direct method of presentation. The statement is also required to present a reconciliation of operating cash flows to operating income (loss).

**Management's Discussion and Analysis:** GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of a "Management's Discussion and Analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Budgetary Control:** Annual budgets are approved and adopted each year by the District's Board. The budget is used to estimate annual revenues and expenditures and is amended primarily upon Board committee or Board approval. Budgeting control is maintained at the department level.

**Cash and Cash Equivalents:** Cash and cash equivalents include investments in highly liquid debt instruments, when present, with an original maturity of three months or less or subject to withdrawal upon request. The District's investment pool utilizes investments authorized by the California Government Code and is further defined by the District's investment policy. Revisions, if any, to the District's investment policy are reviewed and approved by the Board in accordance with Section 53646(a)(2) of the Government Code. Authorized investments include securities backed by the U.S. government; investment grade state or local instruments; insured or collateralized certificates of deposit; commercial paper; bankers acceptances; and medium-term notes. The District's financial statements are presented in compliance with *GASB Statement No. 40, Deposit and Investment Risk Disclosures*.

**Accounts Receivable:** The District's management believes that all accounts receivable from water users and others are fully collectible for the year ended February 29, 2012. Accordingly, an allowance for doubtful accounts has not been recorded in these financial statements.

**Direct Financing Leases:** The District leases certain irrigation equipment to various water users under terms which are accounted for as "direct financing leases" as defined in *Statement of Financial Accounting Standard No. 13*. The difference between the gross rental to be received and the present value of the rentals is recorded as unearned financing income and is amortized into income over the term of the lease using the effective interest rate method. The present value of the rentals to be received under such leases is recorded in the District's financial statements.

**Operating Supplies:** Operating supplies consist of inventories used in the course of maintaining operations and are recorded on the basis of cost, determined by a weighted average which does not exceed market.

**Utility Plant:** Utility plant assets are recorded on the basis of cost. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 10 to 75 years for distribution, drainage and related facilities, 20 to 40 years for buildings and 2 to 25 years for other operating equipment. Expenditures for maintenance, repairs and renewals are charged to expenses as incurred, while expenditures for significant improvements that increase the value or extend the useful life of the asset are capitalized.

The District records and capitalizes the construction costs for irrigation water distribution and drainage collector facilities which have been constructed by Reclamation and to which title is retained by the United States. A liability for repayment is also recorded by the District. When the obligation is relieved, the District believes Congress will enact the passage of title to the District.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**Amortization:** Debt issuance costs are amortized using the straight-line method over the life of the related loan. Water rights purchased are amortized using the straight-line method over the remaining life of the District's water service contracts with Reclamation, or up to 34 years, based upon the expiration of the contracts on December 31, 2007, and their guaranteed renewal for a minimum of 25 years as provided by the Central Valley Project (CVP) Improvement Act.

**Assessments:** The District levies an assessment on all land owners within the District's boundaries typically each fiscal year. After the assessment roll is completed and the District has made the roll available for public review, the District then equalizes the assessment roll. Liens are then placed on the land and assessments become due and payable within six months from the date of the lien.

**Land-based Charges:** Certain costs associated with improving or enhancing the water supply within the District, improving the distribution system and operations & maintenance are passed along to District land owners in the form of land-based charges. The payments are due in one or two installments depending on the type of charge and the location of the land within the District.

**Revenue Recognition:** Water sales are recorded when water is delivered to the user. Assessments are recorded when levied. Deferred revenues are recorded when prepayments or deposits are received on future water deliveries and are recognized as income when the water is delivered to the water user. Land-based charges are generally recorded as deferred revenue when billed and recognized as revenue in the year the installments are due.

**Compensated Absences:** The District's policy allows employees to accumulate vacation leave, capped at 240 hours. Upon termination, employees will be paid their accrued vacation at the rate of pay upon separation.

The District's policy allows employees to accumulate an unlimited amount of medical leave. Upon separation from the District, an employee who is eligible for retirement with California Public Employees Retirement System (CalPERS) shall have the remaining unused medical leave converted to service credit on an hour for hour basis, up to a maximum of six months additional service credit, subject to the rules and regulations of CalPERS. Employees hired on or before March 31, 1996, and as of that date, had fifteen years of service or were eligible for retirement benefits with CalPERS, in lieu of converting unused sick leave to service credit, may elect to receive a fifty percent (50%) cash payout at the employee's rate of pay at the time of separation for the lesser of the employee's unused medical leave accrued before March 31, 1996, up to 520 hours or such lower balance of unused medical leave which may result from use prior to employee's separation.

**NOTE B – CASH AND INVESTMENTS**

Cash and investments are classified in the accompanying financial statements as follows:

	2012
Statement of net assets:	
Cash and investments	\$ 69,908,360
Restricted assets:	
Cash and investments	603,148
Cash and investments by bond trustee	11,766,447
Total restricted	<u>12,369,595</u>
Total cash and investments	<u>\$ 82,277,955</u>

Cash and investments as of February 29, 2012 consist of the following:

	2012
Cash on hand	\$ 175
Deposits with financial institutions	1,968,986
Investments	<u>80,308,794</u>
Total cash and investments	<u>\$ 82,277,955</u>

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**Interest Rate Risk:** In accordance with its investment policy, the District manages its exposure to changes in market interest rates by diversifying its investment by security type and institution. In addition, the maximum authorized term of maturity shall be five years unless authorized by the Board of Directors; provided, the weighted average maturity of all investments shall be 36 months or less. The following table illustrates the distribution of the District's investments by maturity as of February 29, 2012:

	Fair Value	12 months or less	More than 12 months
External Investment Pools	\$68,542,348	\$68,542,348	
Held by Bond Trustee:			
US Treasury Money			
Market Funds	5,843,950	5,843,950	
External Investment Pools	5,922,496	5,922,496	
Total	<u>\$80,308,794</u>	<u>\$80,308,794</u>	

**Credit Risk:** The District limits its exposure to credit risk, that is, the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, by limiting its investments to instruments with the top ratings issued by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating for each investment type as of February 29, 2012:

	Fair Value	Minimum Legal Rating	AAA	AA	Not Rated
External Investment Pools	\$68,542,348	N/A	\$	\$10,060,923	\$58,481,425
Held by Bond Trustee:					
US Treasury Money					
Market Funds	5,843,950	N/A	5,843,950		
External Investment Pools	5,922,496	N/A		3,956,496	1,966,000
Total	<u>\$80,308,794</u>		<u>\$5,843,950</u>	<u>\$14,017,419</u>	<u>\$60,447,425</u>

**Concentration of Credit Risk:** The District's investment policy provides for diversification of investments by security type and institution. There are no investments in any one issuer that represent 5% or more of total District investments.

**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. In accordance with the California Government Code, the District's financial institution secures deposits made by state and 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 must equal at least 110% of the total amount deposited by the public agencies. At February 29, 2012, none of the District's deposits in excess of federal depository insurance were held in uncollateralized accounts.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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. As of February 29, 2012, none of the District's investments were subject to custodial credit risk.

**Investments in External Investment Pools:** The District is a voluntary participant in the following external investment pools: Local Agency Investment Fund (LAIF) and the Investment Trust of California (CalTrust). LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. CalTrust is administered under the oversight of a Board of Trustees, comprised of experienced investment managers. The fair value of the District's investments in these pools are reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the pools for their entire portfolio (in relation to the amortized cost of that portfolio).

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE C – ACCOUNTS RECEIVABLE – WATER USERS AND OTHERS**

Accounts receivable from water users and others consisted of the following types at February 29, 2012:

Water users and others:

Water users from water sales, etc.	\$ 12,057,344
Land owners' assessments/Land-based charges	23,110,893
United States Bureau of Reclamation	1,696,566
Total water users and others	<u>36,864,803</u>
Accrued interest receivable	244,380
Current portion of long-term notes and financing receivables	2,603,097
	<u>\$ 39,712,280</u>

**NOTE D – LONG-TERM NOTES AND FINANCING RECEIVABLES**

Long-term notes and financing receivables consisted of long-term notes with other water districts and investments in direct financing leases at February 29, 2012:

Direct financing leases:

Lease payments to be received	\$ 3,782,065
Less unearned finance income	<u>(243,892)</u>
	3,538,173
Less current portion	<u>(1,134,355)</u>
	2,403,818
Long-term note with Santa Clara Valley Water District	2,452,961
Intertie promissory note	<u>20,922</u>
	<u>\$ 4,877,701</u>

Minimum future rents receivable under non-cancelable direct financing leases are: \$1,134,355 in 2013; \$984,879 in 2014; \$931,241 in 2015; and \$487,698 in 2016. Net investment in direct financing leases secured installment notes payable at February 29, 2012 have a net carrying value totaling \$2,348,158.

As of February 29, 2012, the District had a note receivable from Santa Clara Valley Water District in the amount of \$2,452,961, payable at an amount equal to one-half the annual net debt service costs incurred by the District to finance the acquisition of the water rights from Mercy Springs Water District. Payments from Santa Clara are to be made two times per year on a date not less than 90 days prior to the date the District is obligated to pay the principal and interest on the debt. The final maturity date of the note is December 1, 2028.

In fiscal year 2005-2006, the District, along with several other water districts, individually entered into agreements with the United States to provide for financial participation in the Delta Mendota Canal-California Aqueduct Intertie Project (Intertie Project). A portion of the proceeds from the Revenue Certificates of Participation, Series 2005A (COPs 2005A) issued in February 2005 had been designated for this project. Six of the participating water districts requested that the District advance their portion of the contributed funds for the Intertie Project and, in turn, provided a Promissory note to repay the funds, plus a proportionate share of the issuance costs for the COPs 2005A, over a ten-year period at 5% per annum on the unpaid balance. In July 2010, funds for the Intertie Project were returned after the USBR received alternate funding for the project. Subsequently, five of the promissory notes were paid in full. At February 29, 2012, the outstanding balance of the remaining Intertie Promissory Note was \$20,922.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE E – UTILITY PLANT**

The District's utility plant consisted of the following at February 29, 2012:

**ASSETS AT COST**

	<u>2/28/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>2/29/12</u>
Not Depreciated:				
Land	\$ 1,074,138	\$	\$	\$ 1,074,138
Construction in Progress	1,473,141	7,532	(5,323)	1,475,350
Total Assets, Not Depreciated	<u>2,547,279</u>	<u>7,532</u>	<u>(5,323)</u>	<u>2,549,488</u>
Assets, Being Depreciated:				
Land Improvements	17,561			17,561
Distribution	174,813,218	89,334		174,902,552
Drainage System	20,433,960			20,433,960
Buildings	5,121,773	387,256	(22,780)	5,486,249
Furniture & Fixtures/Information Systems	1,556,338	73,577	(25,382)	1,604,533
Communications Equipment	121,052			121,052
Survey Equipment & Small Tools	79,141			79,141
Autos/Trucks	1,479,225	146,245	(55,847)	1,569,623
Shop Equipment	410,686			410,686
Field Equipment	1,577,288	6,148		1,583,436
Water District Assets, Being Depreciated	<u>205,610,242</u>	<u>702,560</u>	<u>(104,009)</u>	<u>206,208,793</u>
Fishing Club Assets, Being Depreciated	2,142,777			2,142,777
Total Assets, Being Depreciated	<u>207,753,019</u>	<u>702,560</u>	<u>(104,009)</u>	<u>208,351,570</u>

**LESS ACCUMULATED DEPRECIATION**

Land Improvements	\$ 17,561	\$	\$	\$ 17,561
Distribution	74,539,188	2,344,605		76,883,793
Drainage System	7,115,587	272,453		7,388,040
Buildings	3,558,542	153,133	(22,780)	3,688,895
Furniture & Fixtures/Information Systems	1,382,186	46,316	(25,162)	1,403,340
Communications Equipment	120,506	91		120,597
Survey Equipment & Small Tools	78,253			78,253
Autos/Trucks	1,255,156	47,670	(51,947)	1,250,879
Shop Equipment	401,346	348		401,694
Field Equipment	1,200,435	67,304		1,267,739
Accumulated Depreciation, Water District	<u>89,668,760</u>	<u>2,931,920</u>	<u>(99,889)</u>	<u>92,500,791</u>
Accumulated Depreciation, Fishing Club	302,253	72,860		375,113
Total Accumulated Depreciation	<u>89,971,013</u>	<u>3,004,780</u>	<u>(99,889)</u>	<u>92,875,904</u>
Total Water District Assets, Net	118,488,761			116,257,490
Total Fishing Club Assets, Net	1,840,524			1,767,664
Total Utility Plant	<u>\$120,329,285</u>			<u>\$118,025,154</u>

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE F – RESTRICTED ASSETS**

Restricted assets consisted of the following cash balances at February 29, 2012:

Drainage Trust Fund	\$ 72,157
Section 125 Trust Account	5,307
State of California ISIP and EISIP	525,684
Bond Indenture Agreements– Series 2002A	3,252,786
Bond Indenture Agreements– Series 2005A	1,848,731
Bond Indenture Agreements– Series 2007A	3,071,192
Bond Indenture Agreements– Series 2007B	454,278
Bond Indenture Agreements– Series 2008A	3,139,460
	<u>\$12,369,595</u>

**Drainage Trust Fund:** In accordance with a 1986 water rate dispute settlement (the Barcellos Judgment), the District was required to establish and maintain a "Drainage Trust Fund" to aid in funding future costs of drainage service facilities. The settlement required the District to fund the Drainage Trust Fund at a rate of \$5 million per year (to be collected from land owners), including interest up to \$100 million. The District received a court order on May 29, 1992 that the monies deposited, including interest, be released and refunded to the land owners. Of the total collected, there is a remaining unrefunded balance of \$72,157 in the Drainage Trust Fund, which has been classified as a restricted asset, and a corresponding liability has been included in the District's financial statements. The District is attempting to resolve disputed refund claims submitted for these monies.

**State of California - ISIP and EISIP:** During the fiscal year ended February, 1996, the District was awarded \$1 million from the State of California Revolving Loan Program (ISIP) to purchase and install irrigation systems to be leased by certain water users. These leases are accounted for as direct financing leases and are payable over four years. The District's corresponding liability to the State of California is due and payable over 20 years.

During the fiscal year ended February, 1999, the District was awarded \$5 million from the State under an extended loan program (EISIP) to purchase and install irrigation systems to be leased by certain water users. These leases are accounted for as direct financing leases and are also payable over 4 years. The District's corresponding liability to the State is due and payable over 20 years.

As of February 29, 2012, the District had \$525,684 available for future leases and to make the District's scheduled payments on the above programs to the State.

**Bond Indenture Agreements - Series 2002A:** In accordance with the offering of \$100,000,000 Series 2002A Revenue Certificates of Participation, the District was required to establish a Bond Reserve Fund in an amount equal to the maximum Series 2002A installment payments due in the then current or any future fiscal year. A Surety Bond held by the Trustee in the Reserve Fund has been provided as an alternative to the District depositing funds. The face amount of the Surety Bond is equal to the Reserve requirement and the premium was fully paid at the time of delivery of the 2002A Certificates. As of February 29, 2012, the District had \$3,252,786 in the Certificate Payment Fund for the payment due March 1.

**Bond Indenture Agreements – Series 2005A:** In accordance with the offering of \$58,195,000 Series 2005A Revenue Certificates of Participation, the District was required to establish a Bond Reserve Fund in an amount equal to the maximum Series 2005A installment payments due in the then current or any future fiscal year. A Surety Bond held by the Trustee in the Reserve Fund has been provided as an alternative to the District depositing funds. The face amount of the Surety Bond is equal to the Reserve requirement and the premium was fully paid at the time of delivery of the 2005A Certificates. As of February 29, 2012, the District had \$1,848,731 in the Certificate Payment Fund for the payment due March 1.

**Bond Indenture Agreements – Series 2007A:** In accordance with the offering of \$36,815,000 Series 2007A Revenue Certificates of Participation, the District was required to establish a Bond Reserve Fund in an amount equal to the maximum Series 2007A payments due in the then current or any future fiscal year. As of February 29, 2012, the Reserve Fund balance was \$2,293,081. The balance in the Certificate Payment fund was \$778,111 for the payment due March 1.



**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**Bond Indenture Agreements – Series 2007B:** In accordance with the offering of \$20,945,000 Series 2007B Revenue Certificates of Participation, the District was required to establish a Bond Reserve Fund in an amount equal to the maximum Series 2007B payments due in the then current or any future fiscal year. A Surety Bond held by the trustee has been provided as an alternative to the District depositing the funds. The face amount of the Surety Bond is equal to the Reserve requirement and the premium was fully paid at the time of delivery of the 2007B Certificates. As of February 29, 2012, the District has \$454,278 in the Certificate Payment Fund for the payment due March 1.

**Bond Indenture Agreements – Series 2008A:** In fiscal year 2008-2009, \$30,065,000 Series 2008A Adjustable Rate Revenue Certificates of Participation were issued to refund the outstanding Series 2005B Revenue Certificates of Participation. In accordance with the agreements for the offering, the District was required to establish a Bond Reserve Fund in an amount equal to the maximum Series 2008A installment payments due in the then current or any future fiscal year. The initial deposit into this account was \$1,966,394. As of February 29, 2012, the District had \$1,970,168 in the Reserve Fund. As of February 29, 2012, the District had \$1,169,292 in the Certificate Payment Fund for the payment due March 1.

**NOTE G – WATER RIGHTS AND DEBT ISSUE COSTS**

Water rights purchased and debt issue costs consisted of the following at February 29, 2012:

Water rights:	
Value of water rights at estimated cost	\$120,734,109
Less accumulated amortization	<u>(34,140,577)</u>
	<u>\$ 86,593,532</u>
Debt issue costs:	
Value of debt issue at incurred cost	\$ 3,261,393
Less accumulated amortization	<u>(1,215,441)</u>
	<u>\$ 2,045,952</u>

Amortization expense for the year ended February 29, 2012 was \$4,224,088.

**NOTE H – REAL PROPERTY HELD**

Real property held consisted of the following at February 29, 2012:

Land held under land and water acquisition programs	\$ 52,848,527
McCloud River property	32,889,157
Yolo Ranch property	<u>20,253,531</u>
	<u>\$105,991,215</u>

In fiscal year 2006-2007, the District acquired approximately 3,000 acres of property located in Shasta County, California, along the McCloud River. The property was acquired to facilitate the raising of Shasta Dam by the United States Department of the Interior. Until that time, or for a period of 25 years from the closing date, the District has agreed to maintain the property as a private fishing club. A separate enterprise fund has been established to report the financial transactions of the fishing club.

In fiscal year 2007-2008, the District acquired approximately 3,400 acres of property located in Yolo County, California. The property was acquired to pursue projects to address water supply-related environmental and/or Endangered Species Act issues.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE I – DEBT BORROWINGS**

Debt borrowings consisted of the following at February 29, 2012:

U.S. Bureau of Reclamation distribution and drainage collector system construction contracts; payable in semiannual installments on January 1 and July 1 of \$1,991,357 through 2018; non-interest bearing, collateralized by distribution and drainage collector systems.	\$ 25,965,695
Irrigation System Improvement Program; payable to State of California in annual installments of \$65,844 through 2016, including interest at 2.8%; collateralized by lease payments on the equipment.	303,234
Extended Irrigation System Improvement Program; payable to State of California in annual installments of \$324,830 through 2019, including interest at 2.6%; collateralized by lease payments on the equipment.	2,044,924
Series 2002A Revenue Certificates of Participation; payable to Trustee in annual installments beginning at \$1,650,000 in September 2005 and increasing in amounts ranging from \$50,000 to \$295,000 annually through September 2034, plus interest at rates ranging from 3.0% to 5.25%; collateralized by revenues of the District.	87,155,000
Series 2005A Revenue Certificates of Participation; payable to Trustee in annual installments beginning at \$980,000 in September 2005 and increasing in amounts ranging from \$25,000 to \$100,000 annually through September 2035, plus interest at rates ranging from 2.5% to 5.0%; collateralized by revenues of the District.	50,935,000
Series 2007A Revenue Certificates of Participation; payable to Trustee in annual installments beginning at \$635,000 in September 2008 and increasing in amounts ranging from \$25,000 to \$110,000 annually through September 2037; plus interest at rates ranging from 3.5% to 5.0%; collateralized by revenues of the District.	34,120,000
Series 2007B Revenue Certificates of Participation; payable to Trustee in annual installments beginning at \$350,000 in September 2008 and increasing in amounts ranging from \$15,000 to \$60,000 annually through September 2037; plus interest at rates ranging from 3.5% to 5.0%; collateralized by revenues of the District.	19,455,000
Series 2008A Revenue Certificates of Participation; payable to Trustee in annual installments beginning at \$1,065,000 in March 2009 and increasing in amounts ranging from \$35,000 to \$55,000 annually through March 2029; plus interest at variable rates; collateralized by revenues of the District.	26,835,000
Series 2009A San Luis Delta-Mendota Water Authority Revenue Notes, payable to Trustee in March 2014; interest installments at 4.5% are due semi-annually; collateralized by revenues of the District.	50,000,000
	<hr/> 296,813,853
Deferred amounts:	
Bond premiums and discounts	3,761,179
Deferred loss on refunding	(2,164,669)
	<hr/> (9,890,193)
Less current maturities	<hr/> \$288,520,170 <hr/>

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

Debt service requirements to maturity are as follows:

Year ending the last day of February	Principal	Interest
2013	\$ 9,890,193	\$ 12,342,990
2014	10,108,822	12,121,553
2015	60,332,679	10,752,619
2016	10,601,769	9,356,042
2017	10,881,050	9,062,625
2018-2022	44,129,340	40,400,279
2023-2027	46,905,000	30,823,206
2028-2032	54,575,000	18,893,901
2033-2037	45,880,000	5,547,000
2038-2038	3,510,000	87,750
Total	<u>\$296,813,853</u>	<u>\$149,387,965</u>

The Adjustable Rate Revenue Certificates of Participation, Series 2008A, are subject to an interest rate swap agreement with Citibank, N.A. The swap is designed to provide a synthetic fixed borrowing cost for the District, with variable rate payments from Citibank matching the payments the District makes to the holders of the Certificates. The District pays Citibank a fixed rate of 3.017% semi-annually. Citibank pays the District a rate equal to 54% of the 1-month London Inter-bank Offered Rate (LIBOR) plus 0.35%. The applicable LIBOR rate is reset weekly. The agreement with Citibank was entered into on August, 26, 2005, and subsequently amended on August 26, 2008. It is scheduled to terminate on March 1, 2029.

As of February 29, 2012, the outstanding notional amount of the swap was \$26,575,000. As of market conditions on that date, the fair market value of the swap was a negative \$3,756,635 to the District. This value was arrived at by taking into account certain interest rate curves as reported by Bloomberg Professional Services and utilizing standard interest rate swap valuation methodology. The fair market value may be found in the Statement of Net Assets under Other Assets – deferred outflow, with the offsetting amount reported under Other Liabilities – derivative instrument, swap.

The Synthetic Instrument Method (SIM) was used to evaluate the effectiveness of the swap. This method assesses the all-in interest cost the District pays, including the swap payments and the interest payments on the Certificates. For the hedge to be considered effective, this rate must be at least 90% and no greater than 111% of the fixed rate of the swap. The District's SIM rate since the inception of the derivative contract was 3.288%, or 109% of the 3.017% fixed rate on the swap.

Certain risk factors may be associated with the swap. The following items should be considered in identifying material risks:

- Basis risk – The variable swap payments may differ from the rate the District pays on the hedged certificates. This could result from a general market disparity between weekly rates paid by municipal borrowers compared to 1-month LIBOR; from higher relative rates on the District's certificates compared to similar securities; or be related to factors such as negative investor perception of the credit quality of the certificates.
- Counterparty credit risk – The counterparty, Citibank, N.A., could be in default on swap payments owed to the District, or file bankruptcy. Or the counterparty's credit rating could fall below certain thresholds or be withdrawn. Either of these could result in a termination event, in which case the District could immediately owe (or be owed) the fair market value of the swap.
- District credit risk – If the District's credit rating on the certificates falls below certain thresholds or is withdrawn, a termination event may result, in which case the District could immediately owe (or be owed) the fair market value of the swap.
- Liquidity/credit enhancement on certificates – credit and extension risk – The District's certificates are supported, in terms of guaranteed principal and interest payment to investors (credit enhancement), as well as the guarantee to repurchase any certificate (liquidity), by Rabobank, N.A. through a direct-pay letter of credit facility. If certificate investors perceive this facility negatively, the District's certificates may bear higher rates than comparable securities. In addition, the certificate credit and liquidity facility must be extended

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

periodically or replaced by a comparable provider. The current facility expires on September 28, 2016. To the extent the facility cannot be replaced or extended, various potential impacts of this, including accelerations of certificate principal repayment, could result in a swap termination event.

- Collateral posting risk – Based upon certain thresholds of the fair market value of the swap and the ratings of the District or the counterparty, either party may be required to post collateral (cash or certain allowable securities).
- Termination event risk – A number of events are specified in the swap legal documents that could result in the District immediately owing (or owed) the swap's fair market value. These include, but are not limited to, downgrades to either the District's or the counterparty's credit rating, events of default or bankruptcy of either party, and changes in the outstanding principal amount or amortization of the District's certificates.

**San Luis & Delta-Mendota Water Authority Revenue Notes:** On April 1, 2009, San Luis Delta-Mendota Water Authority issued \$50,000,000 Revenue Notes, Series 2009A, to fund Delta Habitat Conservation and Conveyance Program (DHCCP) activity. Certain members of the Authority, including the District, have entered into agreements with the Authority and will be obligated to pay DHCCP development costs pursuant to the Department of Water Resources (DWR) funding agreement and the DHCCP activity agreement with the Authority. Notwithstanding the percentage share of the debt service on the notes for the various financing participants, Westlands Water District is obligated to pay 100% of the principal of and interest on the notes when due under its DHCCP activity agreement with the Authority. The Trustee will apply payments of principal and interest received through the Authority from the other financing participants to reimburse the District. Semi-annual interest payments of \$1,125,000 are due each March 1 and September 1 beginning September, 2010, through September, 2013. On the maturity date of March 1, 2014, a final principal and interest payment of \$51,125,000 is due. The other financing participants are expected to reimburse the District 37.04% of the total of each payment. In the event that the Authority has not received from the financing participants amounts sufficient to pay the principal of and interest on the Notes 90 days prior to the maturity date, the Authority has agreed to use commercially reasonable efforts to effectuate the sale and delivery of bonds, notes or other obligations to refund the principal portion of the Notes in excess of amounts received from financing participants prior to the maturity date.

**Changes in long-term liabilities**

Long-term liability activity for the year ended February 29, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$223,880,000	\$50,000,000	\$ (5,380,000)	\$268,500,000	\$5,580,000
Plus deferred premium	3,959,265		(161,817)	3,797,448	
Less deferred discount	(37,664)		1,395	(36,269)	
Less deferred refunding loss	(2,284,929)		120,259	(2,164,670)	
Total bonds payable	225,516,672	50,000,000	(5,420,163)	270,096,509	5,580,000
Repayment contract	29,948,409		(3,982,714)	25,965,695	3,982,714
Loans payable	2,667,229		(319,071)	2,348,158	327,479
Payable from restricted assets	7,230,570	11,014,110	(10,111,510)	8,739,104	
Water exchanges	642,000			642,000	
Total long-term liabilities	<u>\$266,010,880</u>	<u>\$61,614,110</u>	<u>\$(19,833,464)</u>	<u>\$307,791,526</u>	<u>\$9,890,193</u>

**NOTE J – WATER EXCHANGE PAYABLE**

Water exchange payable consisted of the following at February 29, 2012:

KCWA 1995-1996 exchange	\$642,000
-------------------------	-----------

The 1995-1996 Kern County Water Agency (KCWA) liability at February 29, 2012, represents 21,400 acre-feet of water to be acquired and provided to certain Priority II water users as a result of an exchange transaction. The amount is included in the District's financial statements as both a non-current asset and liability.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE K – DESIGNATED ASSETS**

Certain funds have been set aside by the District for future use for specific purposes. These amounts are included in unrestricted net assets. As of February 29, 2012, designated assets consisted of the following cash balances:

General Reserve	\$ 5,992,204
Self Insurance/Unemployment Reserves	46,133
COP Reserve	2,932,200
O&M Reserve	9,207,040
Irrigation Equipment Lease Programs	4,744,741
Acquisition Fund – 2002A	177,072
Land & Water Fund	16,438,204
Naval Air Station – Lemoore Reserve	1,675,594
2005A Naval Air Station – Lemoore Reserve	1,545,503
	<hr/>
	\$42,758,691

**General Reserve:** The general reserve was established to help the District meet unexpected obligations. As of February 29, 2012, the District had designated funds of \$5,992,204 in this reserve.

**Self Insurance/Unemployment Reserves:** The District established a self-insurance reserve for vehicle collision and comprehensive expenses as they occur. In addition, funds are included for unemployment insurance expenses. As of February 29, 2012, \$46,133 was held in this reserve.

**COP Reserve:** The District has collected through a land-based charge to fund long-term water acquisitions, an amount to be held in reserve to assist the District in meeting the debt service requirements in the event of drought. As of February 29, 2012, the amount held in this reserve was \$2,932,200.

**O&M Reserve:** Through water rates, the District collects an amount to be set aside to fund current and future operations and maintenance activities. Funds are collected for distribution system maintenance, vehicle purchases, facility maintenance and replacement, and information systems. As of February 29, 2012, the District had \$9,207,040 available in the O&M reserve.

**Irrigation Equipment Lease Programs:** In addition to the State of California Revolving Loan Program funds to purchase and install irrigation systems to be leased by certain water users classified as a restricted asset, the District has designated additional funds to supplement the program. As of February 29, 2012, the District had \$4,744,741 available for future leases.

**Acquisition Fund – 2002A:** Pursuant to the Sagouspe Settlement Agreement, proceeds received from sales of land previously acquired through the Land and Water Acquisition Program are designated for related future acquisitions and projects. As of February 29, 2012, the balance of this fund was \$177,072. More information on the Sagouspe Settlement Agreement may be found in Note O.

**Land & Water Fund:** In fiscal year 2010-2011, the District received funds that had been previously advanced to the USBR for the Intertie Project. These funds have been designated for future land and water acquisitions. As of February 29, 2012, the balance of this fund was \$16,438,204.

**Naval Air Station - Lemoore Reserve:** On May 19, 2003, the District and the Naval Air Station - Lemoore (NASL) executed the "Supplemental Water Allocation Agreement" in order to provide for an increase in water supply. Pursuant to the agreement, a surcharge is imposed on agricultural water allocated to land within NASL boundaries and funds from this surcharge are deposited into this reserve account. This reserve account is to be maintained by the District for the benefit of NASL and used pursuant to the terms of the agreement. As of February 29, 2012, the balance of the reserve account was \$1,675,594.

**2005A Naval Air Station - Lemoore Reserve:** Pursuant to the "Supplemental Water Allocation Agreement" between the District and NASL, funds are transferred from the NASL Reserve and held in this reserve until needed for payment of the Navy's portion of the District's debt service obligations associated with the agreement. As of February 29, 2012, a balance of \$1,545,503 was held in this reserve.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**NOTE L – RETIREMENT PLAN**

**Plan Description:** The District's defined benefit pension plan, the Miscellaneous Plan of the Westlands Water District Employer #497 (the Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

**Funding Policy:** Active members in the Plan are required to contribute 7.0% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the 2011-2012 fiscal year was 4.272%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

**Annual Pension Cost:** For the 2011-2012 fiscal year, the District's annual pension cost was \$263,763 and the employer actually contributed \$263,763. The annual required contribution (ARC) for the 2011-2012 fiscal year was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

Because the District had less than 100 active members in at least one valuation since June 30, 2003, it is required to participate in the Miscellaneous 2% at 55 Risk Pool. The District's employer contribution rate is calculated using a combination of the District's individual cost plan components and the risk pool's cost components.

A summary of principal assumptions and methods used to determine the contractually required contributions for the cost sharing multiple employer benefit plan is shown below:

Valuation date	June 30, 2010
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	18 years as of valuation date
Asset valuation method	15 year smooth market
Actuarial assumption	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

**Pool's Employer Contribution Rate History:**

Valuation Date	Net Employer Normal Cost	Total Surcharges for Class 1 Benefits	Gross Employer Normal Cost	Payment on Pool's Amortization Bases	Total Payment on Employer Side Funds	Total Employer Contribution
06/30/2008	7.740%	0.657%	8.397%	0.735%	2.144%	11.276%
06/30/2009	7.684%	0.656%	8.340%	1.855%	1.955%	12.150%
06/30/2010	7.720%	0.655%	8.375%	1.996%	1.886%	12.257%

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

**Funded Status of the Risk Pool (in thousands):**

Valuation Date	Accrued Liabilities (AL)	Actuarial Value of Assets(AVA)	Unfunded Liability (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
06/30/2008	\$2,780,281	\$2,547,323	\$232,957	91.6%	\$688,607	33.8%
06/30/2009	\$3,104,798	\$2,758,511	\$346,287	88.9%	\$742,981	46.6%
06/30/2010	\$3,309,065	\$2,946,408	\$362,656	89.0%	\$748,401	48.5%

**NOTE M – POST-RETIREMENT HEALTH CARE BENEFITS**

**Plan Description:** Employees are eligible for postretirement medical benefits upon the later of reaching age 50 or five years of eligible PERS service. Disabled employees are eligible with five years of service. Board members are also eligible to participate. Eligible retirees and board members may enroll in any plan available through the CalPERS Medical Program. The District pays up to the maximum employer contribution which is recalculated each year.

**Funding Policy:** On April 2, 2009, the District entered into a trust agreement with CalPERS to participate in its Prefunding Plan through California Employer's Retiree Benefit Trust (CERBT) that will administer other post employment benefit obligations on behalf of the District. The CERBT is an irrevocable trust in accordance with GASB 45 requirements. The District intends to contribute 100% of the annual required contribution (ARC).

**Annual OPEB Cost and Net OPEB Obligation:** The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

Annual Required Contribution (ARC)	\$ 1,067,624
Interest on net OPEB obligation	(1,320)
Adjustment to ARC	1,523
Annual OPEB cost	<u>1,067,827</u>
Contributions made	<u>(1,080,737)</u>
Increase (decrease) in net OPEB obligation	(12,910)
Net OPEB obligation (asset), beginning of year	<u>(17,031)</u>
Net OPEB obligation (asset), end of year	<u>\$ (29,941)</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year	ARC	Contributions	Percentage Contributed	Net OPEB Obligation
2009-2010	\$1,383,291	\$1,636,615	118.3%	\$689,683
2010-2011	\$1,052,892	\$1,752,060	166.4%	\$ (17,031)
2011-2012	\$1,067,624	\$1,080,737	101.2%	\$ (29,941)

**Funded Status and Funding Progress:** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health 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

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

results are compared with past expectations and new estimates are made in the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll
2009-2010	\$1,439,283	\$10,650,764	\$9,211,481	13.5%	\$6,543,552
2010-2011	\$3,103,214	\$ 9,203,563	\$6,100,349	33.7%	\$6,962,649
2011-2012	\$3,664,648	\$ 9,886,627	\$6,221,979	37.1%	\$7,319,050

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The March 1, 2010, actuarial valuation used the Projected Unit Credit Cost Method. Under this method, the projected benefits of each individual included in the valuation are separately calculated and allocated to each year of service by a consistent formula. The portion of the present value of future benefits allocated to a valuation year is the Normal Cost. The portion allocated to all prior years is the Actuarial Accrued Liability. The actuarial assumptions included a discount rate of 7.75% and a 5% inflation rate. Health care cost trend rates ranged from 8.2% to 5.5% after ten years. The remaining amortization period at February 29, 2012 was 27 years.

**NOTE N – DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan (the Plan), created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the participants. Participants' rights under the Plan are equal to the fair market value of the deferred account for each participant.

**NOTE O – LAND AND WATER RIGHTS ACQUISITION**

Since 1992, the long-term reliability of the District's Central Valley Project (CVP) water supply (Contract Water) has been significantly reduced as a result of a variety of changes in federal law. In an effort to increase the amount of water available for delivery to land owners and water users, the District's Board of Directors authorized a Land and Water Acquisition Program in 1998. According to its guidelines, the CVP Contract Water entitlement acquired, or associated with the land to be acquired, would be reallocated and transferred to the landowners and water users within the District. Likewise, other water supplies acquired would be similarly allocated. Under this program, the District acquired 13,336 acres of land and approximately 37,155 acre-feet of water rights at a total cost of \$21,609,923.

On May 14, 1999, the District entered into an agreement with Mercy Springs Water District, Santa Clara Valley Water District and the Pajaro Valley Water Management Agency for the partial assignment of Mercy Springs Water District's existing Central Valley Project Water Contract. Under this agreement, Mercy Springs Water District assigned its right, title and interest in 6,260 annual acre-feet of Project water to the District, Santa Clara Valley Water District (Santa Clara) and Pajaro Valley Water Management Agency (Pajaro). The total cost was \$5,663,134. Under this agreement, Santa Clara has the first priority to the water, but may not receive more than 25% of the actual deliveries in each ten-year period. Additionally, Pajaro may exercise an option to obtain the District's share of the assignment during the eleventh through the twentieth year.



**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

In August 1998, the District entered into a Land Retirement Agreement with the United States Department of the Interior, to cooperate on a project for the retirement of up to 15,000 acres of land within the District over a period of three years. During the term of the agreement, a total of 1,433 acres of land was acquired by the United States, with the District contributing up to the \$1,150 per acre towards the purchase price in order to retain the right to receive the District's CVP Contract Water associated with the lands. The District acquired approximately 3,812 acre-feet of water rights under this agreement at a total cost of \$1,677,092.

On April 29, 2002, the District's Board of Directors approved the Agreement for Distribution of Water, Allocation of Costs, and Settlement of Claims (Sagouspe Settlement Agreement), reached between the Area I and Area II landowners that were parties to the litigation, and the courts validated this agreement on December 3, 2002. The lands and associated water rights acquired by the District and/or the United States through the Land and Water Acquisition Program, the Land Retirement Agreement and the Peck Settlement Agreements, and repayment of the debt obligation for these lands and associated water rights, were incorporated into and are now governed by the Sagouspe Settlement Agreement. Through this agreement, the District expended \$108.5 million (\$8.5 million of District reserves and \$100 million obtained through the issuance of new debt) to acquire sufficient land within the District, the permanent right to an allocation of the District's CVP Contract Water that is apportioned among lands in the District, or a long-term water supply other than the District's CVP Contract Water, in order to make an equal water supply allocation of 2.60 acre-feet per acre to eligible Area I and Area II lands that are not retired lands (i.e., lands acquired within the District, or lands for which the permanent right to an allocation of the District's CVP Contract Water has been acquired) in any water year that the District's Contract Water supply is not less than 1,150,000 acre-feet. Pursuant to this agreement, prior to March 1, 2008, the allocation of water supply was equalized by allocating to Area II lands that are not retired lands the District Contract Water and other water supplies obtained through the acquisitions contemplated by the agreement. On and after March 1, 2008, District Contract Water and other supplies from this agreement will be allocated equally on a per-acre basis to eligible Area I and Area II lands that are not retired lands. Repayment of debt issued by the District which implements this settlement agreement is being accomplished by the collection of land-based charges imposed on irrigable lands in Areas I and II that are not retired lands according to a formula specified in the agreement. Approximately 28,626 acres of land and 85,749 acre-feet of water rights at a cost of \$50,185,291 has been acquired to complement the Land and Water Acquisition Program, the Land Retirement Agreement and the Peck Settlement Agreement acquisitions.

In September and December 2002, the District, the United States and owners of approximately 36,000 acres of farmland in the Westlands Water District reached a settlement in a long-standing lawsuit involving drainage issues (Peck Settlement Agreements). Under the agreements, the District purchased approximately 35,000 acres of land over a three-year period and permanently removed the land from irrigated agriculture. The cost of the settlements to the District was approximately \$35 million and was funded by the debt issuance from the Sagouspe Settlement Agreement. Likewise, the water formerly allocated to the lands that were acquired is now distributed to other farmers within the District pursuant to the Sagouspe agreement. Approximately 29,487 acres of land and 90,597 acre-feet of water rights has been acquired at a cost of \$31,921,273.

In February and March 2005, the District acquired approximately 8,750 acres of land within the Broadview Water District, which is substantially all of Broadview's irrigable acreage. With the acquisition, the District initiated and completed the processes to annex all of Broadview's lands and receive a permanent assignment of Broadview's Central Valley Project Water Contract totaling 27,000 acre-feet to the District from Reclamation. From this water supply, the District annually makes available 6,000 acre-feet of entitlement to the Naval Air Station – Lemoore pursuant to the Supplemental Water Allocation Agreement between the District and NASL. The remaining 21,000 acre-feet of entitlement is annually allocated according to the Sagouspe Settlement Agreement.

In February 2005, the District acquired 4,000 acre-feet of water supply entitlement associated with Oro Loma Water District's Central Valley Project Water Contract. The District will seek a permanent assignment of this portion of Oro Loma's water contract to the District from Reclamation, and plans to annually make available the 4,000 acre-feet of entitlement to NASL pursuant to the aforementioned agreement.

Through these several initiatives and agreements, the District has acquired approximately 266,908 acre-feet of water rights at a total cost of \$101,914,964. The value of these water rights have been capitalized and are being amortized over the life of the District's water service contracts with the Bureau, or up to 34 years, based upon the expiration of the contracts on December 31, 2007, and their guaranteed renewal for a minimum of 25 years as provided by the CVP Improvement Act.

In fiscal year 2003-2004, the Board also authorized the acquisition of permanent, long-term water supplies for M&I use within the District, thereby making the District's CVP Contract Water supply previously used for these purposes available for agricultural use. In October, 2003, the District executed an agreement with the County of Kings and

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

acquired 5,000 acre-feet of State Water Project water entitlement from Angiola Water District in order to make this water available to the Naval Air Station - Lemoore, pursuant to the Supplemental Water Allocation Agreement between the District and NASL. In May 2004, the District executed an agreement with Widren Water District and acquired all 2,990 acre-feet of Widren's Central Valley Project Water Contract. In October 2004, the District executed an agreement with Centinella Water District and acquired all 2,500 acre-feet of Centinella's Central Valley Project Water Contract.

In fiscal year 2010-2011, the District received a return of funds previously advanced to the USBR for the intertie project. The Board has designated these funds for future land and water acquisitions. As of February 29, 2012, \$16,108,765 was available for future acquisitions.

**NOTE P – CENTRAL VALLEY PROJECT O&M AND CAPITAL OBLIGATIONS**

Federal legislation enacted in 1986 directed Reclamation to determine each water contractor's share of main projects O&M costs (occurring after October 1, 1985) which are not currently reimbursed to Reclamation under existing water contracts. Reclamation was further directed to accumulate these excess costs; including interest (collectively O&M deficits) until such time that the new water contracts were renewed. Beginning in fiscal year 2008-2009, under the new interim contract, the District is required to reimburse Reclamation for such O&M deficits through increased costs of its water supply. As of September 30, 2010, according to Reclamation calculations, there was no O&M deficit.

In addition, CVP main project capital allocated to the District must be paid in full by the year 2030. This capital is allocated to the federal water contractor on the basis of future projected water deliveries and is included in Reclamation's cost-of-service water rate. As of September 30, 2010, \$360,939,255 in unpaid CVP capital was reflected on Reclamation's accounting records as the District's future capital obligations. This amount has not been accrued as an obligation on the District's financial statements.

**NOTE Q – PRIOR PERIOD ADJUSTMENT**

In fiscal year 2009-2010, pursuant to an agreement with Reclamation, the District began advance payment of operations and maintenance (O&M) activities payable to Reclamation under the Water Service Contract. Because the District believed these payments were for a future benefit, they were recorded as an asset. Subsequently, it was decided it would be more appropriate to expense the payments in the fiscal year for which they were applicable. A prior period adjustment of \$8,358,878 has been recorded to adjust retained earnings for the payments applicable to fiscal years 2009-2010 and 2010-2011.

**NOTE R - CONTINGENCIES AND COMMITMENTS**

**Drainage Water System:** The Firebaugh Canal Water District (Firebaugh) and the Central California Irrigation District (CCID) amended complaint seeks damages from the District, other water districts within the San Luis Unit, and the United States. In addition to damages, the plaintiffs seek injunctive relief requiring the District, other districts within the San Luis Unit, and the United States to undertake measures to eliminate or mitigate for drainage problems on lands in Firebaugh's and CCID's service areas, and related water quality problems in the San Joaquin River. They allege that lands within their districts have been damaged by irrigation of "upslope" lands within the San Luis Unit, on a theory that water migrates to their lands and worsens drainage problems on their lands. The District vigorously disputes these claims.

The United States District Court for the Eastern District of California has ruled that the United States is obligated under Section 1 (a) of the San Luis Unit Act to provide drainage service to lands within the San Luis Unit. Firebaugh and CCID are not within the San Luis Unit. Firebaugh and CCID, however, allege that irrigation of lands in the San Luis Unit has created a "continuing nuisance" on their lands.

The damages claims against the District have been dismissed. On May 12, 2004, the district court dismissed the nuisance claims against the District with prejudice. A claim against the United States under the Administrative Procedure Act is still pending, and plaintiffs contend that the District is a necessary party to that claim. Any remedy for that claim would be limited to declaratory and injunctive relief, and not damages.

**WESTLANDS WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED FEBRUARY 29, 2012  
(continued)**

The ultimate outcome of these matters, and any insurance coverage, together with the amount of the District's potential liability, if any, resulting from the ultimate resolution of these matters cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the financial statements.

The District has assets of approximately \$13,045,920 as of February 29, 2012 (net book value) pertaining to the existing, but closed drainage collector system. The drainage system has not been used in the District's operations since 1986 and is not scheduled to be reopened until an alternative drainage plan can be developed. The ultimate recovery of the cost of the drainage system and, perhaps, the distribution system which services this farmland is contingent upon the development of alternative drainage plans. Management believes that alternative drainage plans to manage and/or otherwise collect, treat, and dispose of subsurface drainage water will be developed and, accordingly, no provision for any loss which might result from the failure to develop such a plan has been made in the financial statements.

Although the United States has been ordered by the District Court to provide a plan for drainage service, the District remains actively involved in its efforts to identify a solution to the drainage problem. Projects evaluated have included a selenium removal treatment plant, and a deep well injection program, both of which have been terminated due to technical problems and higher than anticipated costs. The District has also conducted other preliminary investigations into drainage reduction programs, cogeneration, agro forestry, and shallow groundwater pumping as potential solutions to the drainage problem. The ultimate cost of a solution remains unknown; however, management has concluded that the District has adequate financing capability to cover these costs in the future as they arise.

**Water Supply:** The District's contracts with Reclamation entitle it to receive up to 1,191,383 acre-feet of water per fiscal year. The District received 80% of its entitlement in the 2011-2012 fiscal year. Reclamation announced a 30% allocation for the 2012-2013 fiscal year and subsequently increased it to 40%.

Various regulatory and legal proceedings may impact the guaranties of water available to the District in the future. However, management does not believe that these impacts will have a material adverse affect on the District's financial position, and any future impact would be nearly impossible to estimate at this point in time. Accordingly, no liability has been accrued in these financial statements.

**Promissory Note:** The District has made a loan to a management level employee in the amount of \$1,400,000. This loan is secured by a promissory note and real property and provides terms for the loan to be repaid with interest within a certain period of time. The maturity date of the original loan has been extended and is due in full on April 27, 2012.

**Risk Management:** The District maintains general liability, property, auto, crime and excess liability coverage through the Water Districts Insurance Program provided by the Arch Insurance Company (AM Best Rating A).

General liability coverage, which encompasses wrongful acts, bodily, personal and professional injury, including public officials' errors and omissions and employment practices, as well as auto liability coverage, is \$21,000,000 per occurrence, with a \$5,000 deductible. (\$1,000,000 per occurrence, \$3,000,000 aggregate plus \$20,000,000 excess liability.)

Coverage for buildings and business personal property, including property coverage extensions, is \$73,216,750. Coverage also includes a "margin clause" that will increase the District's limits of property coverage by 25% in the event of loss or damage. Scheduled mobile equipment is separately covered for \$1,039,457. Boiler and machinery coverage is limited at \$20,000,000. All coverage deductibles are \$5,000.

The crime insurance covers dishonesty; forgery; theft, disappearance and destruction (inside and outside); and computer fraud at a limit of \$100,000 for each. Each of the coverage's has a \$500 deductible.

**Other Litigation:** The District is also a party to other legal proceedings and claims, which arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation will not have a material adverse effect on the District's financial position.

SINGLE AUDIT REPORTS



Sampson, Sampson & Patterson, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102  
Clovis, California 93612-4739  
(559) 291-0277 • FAX (559) 291-6411

July 3, 2012

Board of Directors  
Westlands Water District  
Fresno, California

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

We have audited the financial statements of the Westlands Water District as of and for the year ended February 29, 2012 and have issued our report thereon dated July 3, 2012. 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.

Internal Control Over Financial Reporting

Management of Westlands Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Westlands Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Westlands Water District

July 3, 2012

Page 2

This report is intended for the information of the Board of Directors, management and others within the District, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sampson, Sampson & Patterson, LLP*



Sampson, Sampson & Patterson, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102  
Clovis, California 93612-4739  
(559) 291-0277 • FAX (559) 291-6411

July 3, 2012

Board of Directors  
Westlands Water District  
Fresno, California

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited Westlands Water District's compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Westlands Water District's major federal program for the year ended February 29, 2012. Westlands Water District's federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Westlands Water District's management. Our responsibility is to express an opinion on Westlands Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Westlands Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Westlands Water District's compliance with those requirements.

In our opinion, Westlands Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended February 29, 2012.

Internal Control Over Compliance

Management of Westlands Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Westlands Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Westlands Water District's internal control over compliance.

Westlands Water District

July 3, 2012

Page 2

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Westlands Water District as of and for the year ended February 29, 2012, and have issued our report thereon dated July 3, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of the Board of Directors, management and others within the District, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sampson, Sampson & Patterson, LLP*



WESTLANDS WATER DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED FEBRUARY 29, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S Department of the Interior</u>			
Direct Programs:			
ARRA – Water Conservation through Irrigation System Purchase Program	15.507	N/A	<u>\$ 1,439,670</u>
Total Expenditures of Federal Awards			<u>\$ 1,439,670</u>

See accompanying notes to schedule of expenditures of federal awards.

WESTLANDS WATER DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED FEBRUARY 29, 2012

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Westlands Water District, and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards Presentation

The schedule of federal awards presented is prepared from only the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the District.

WESTLANDS WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 29, 2012

**Part I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness (es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiency(s) identified not considered to be material weaknesses?	_____ yes	_____ <u>X</u> no
Noncompliance material to financial statements notes?	_____ yes	_____ <u>X</u> no

**Federal Awards**

Internal control over major programs:		
Material weakness (es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiency(s) identified not considered to be material weakness (es)?	_____ yes	_____ <u>X</u> no
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510 (a))?	_____ yes	_____ <u>X</u> no

**Programs Subjected to Audit Procedures as Major Programs**

	Name of Federal Program or Cluster
15.507	ARRA – Water Conservation through Irrigation System Purchase Program
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	_____ yes _____ <u>X</u> no

WESTLANDS WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED FEBRUARY 29, 2012

(Continued)

**Part II - Financial Statement Finding Section**

Significant Deficiency(s), Material Weaknesses and Instances of Noncompliance Related to the Financial Statements:

NONE

**Part III - Federal Award Findings and Questioned Costs Section**

Significant Deficiency(s), and Instances of Noncompliance Related to the Audit of Major Federal Programs:

NONE

WESTLANDS WATER DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2012

**Findings – Financial Statement Audit.**

None

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX B

### DEFINITIONS AND SUMMARY OF THE INDENTURE

*The following is a summary of certain provisions of the Indenture of Trust which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture of Trust for a full and complete statement of the provisions thereof.*

**Definitions.** Unless the context otherwise requires, the terms defined in the Indenture, 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 Representative.** The term "Authorized Representative" means, with respect to the District, its President, Vice President, Secretary, General Manager, Finance Director 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 Finance Director and filed with the Trustee.

**Bond Counsel.** The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

**Bond Year.** The term "Bond Year" will have the meaning set forth in the Tax Certificate.

**Bonds.** The term "Bonds" means all 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 2012 Bonds and which are secured by a pledge of and lien on Revenues as described in the Indenture.

**Business Day.** The term "Business Day" means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

**Bureau.** The term "Bureau" means the United States of America, acting through the Department of the Interior, Bureau of Reclamation.

**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 its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined are to be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument includes the statements provided for therein.

**Closing Date.** The term "Closing Date" means the date on which the 2012 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, dated the Closing Date, by the District, as originally executed and as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means all contracts of the District authorized and executed by the District, the Installment Payments under which are on a parity with the 2012 Bonds and which are secured by a pledge and lien on the Revenues, including, without limitation, (i) the State Revolving Fund Loan Program Loan Contract between the State Water Resources Control Board and the District, dated April 1, 1995, (ii) the State Revolving Fund Loan Program Loan Contract between the State Water Resources Control Board and the District, dated October 1, 1998, (iii) the 2005A Installment Purchase Agreement, (iv) the Interest Rate Swap Agreement, (v) the 2007A Installment Purchase Agreement, (vi) the 2007B Installment Purchase Agreement and (vii) the 2008A Installment Purchase Agreement.

Corporation. The term “Corporation” means the El Dorado Irrigation District Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, issuance, sale and delivery of the 2012 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the 2012 Bonds and any other cost, charge or fee in connection with the original issuance of the 2012 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

Date of Operation. The term “Date of Operation” means, with respect to any uncompleted Parity Project, the estimated date by which such Parity Project will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the District.

Debt Service. The term “Debt Service” means, for any Fiscal Year, the sum of (1) the interest payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized), (2) that portion of the principal amount of all outstanding serial Bonds maturing in such Fiscal Year, (3) that portion of the principal amount of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year, and (4) that portion of the Installment Payments payable during such Fiscal Year (except to the extent such interest is capitalized); 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 represent interest at a fixed rate equal to the higher of: (i) the actual rate on the date of calculation, or if such Contract or Bond is not yet outstanding, the initial rate (if established and binding), and (ii) if such Contract or Bond has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, or if such Contract or Bond is outstanding for the twelve prior months, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the Bonds to be issued or the Contracts to be executed; provided further that, if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the Fiscal Year of determination as if the principal and interest on such series or issue of such Bonds or Installment Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Installment Payments or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and provided further that, the amount on deposit in a debt service reserve fund (exclusive of any insurance policy, letter of credit, surety bond or other security device) 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 in each preceding year until such amount is exhausted; 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; and provided further that, Debt



Service will not include interest which is paid from investment earnings on amounts on deposit in the Reserve Fund and transferred to the Payment Fund.

Defeasance Securities. The term “Defeasance Securities” means: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasures”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasures held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasures are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, and (5) subject to the prior written consent of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), securities eligible for “AAA” defeasance under then existing criteria of S&P.

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 2012 Bonds.

District. The term “District” means Westlands Water District, a California water district duly organized and existing under and by virtue of the laws of the State.

Escrow Agent. The term “Escrow Agent” means the escrow agent under the Escrow Agreement.

Escrow Agreement. The term “Escrow Agreement” means that certain Escrow Agreement (Series 2002A) dated as of October 1, 2012 by and between the District and Union Bank, N.A as escrow agent.

Event of Default. The term “Event of Default” means any of the events specified in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on March 1 of each year and ending on the last day of February of the following year, both dates inclusive, or any other twelve month period selected in the future and designated as the official fiscal year period of the District.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of October 1, 2012, by and between the District and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District 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 adviser, and who, or each of whom: (1) is in fact independent and not under domination of the District; (2) does not have any substantial interest, direct or indirect, with the District; and (3) 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’s Electronic Municipal Market Access system; 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 a long-term debt rating of AA- or better by S&P and Aa3 or better by Moody’s.

Insurance Policy. The term “Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the 2012 Bonds when due.

Insurer. The term “Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means each March 1 and September 1, commencing March 1, 2013.

Interest Rate Swap Agreement. The term “Interest Rate Swap Agreement” means, collectively, (i) the International Swaps and Derivatives Association, Inc., Master Agreement (the “Master Agreement”), dated as of August 26, 2005, by and between Citibank, N.A., and the District, (ii) the Schedule to the Master Agreement, dated as of August 26, 2005, by and between Citibank, N.A., and the District, (iii) the Credit Support Annex to the Schedule to the Master Agreement, dated as of August 26, 2005, by and between Citibank, N.A., and the District, and (iv) the Confirmation to the Schedule to the Master Agreement, dated as of August 26, 2005, by and between Citibank, N.A., and the District, as amended and restated by the Amended and Restated Confirmation, dated as of April 30, 2008.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel; provided the provider thereof or the guarantor thereof is rated at least “AA” and “Aa” by S&P and Moody’s, respectively.

Letter of Representations. The term “Letter of Representations” means the letter of the District and the Trustee delivered to and accepted by the Depository on or prior to delivery of the 2012 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Manager. The term “Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means a long-term debt rating of A by S&P or A2 by Moody’s.

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, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

1963 Contract. The term “1963 Contract” means the Contract between the United States and Westlands Water District Providing for Water Service (Contract No. 14-06-200-495-A), dated June 5, 1963.

1965 Contract. The term “1965 Contract” means the Contract Between the United States and Westlands Water District Providing for the Construction of a Water Distribution and Drainage Collector System (Contract No. 14-06-200-2020A), dated April 1, 1965.

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 of the Trustee. The term “Office of the Trustee” means the principal corporate trust office of the Trustee in San Francisco, California, provided that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of 2012 Bonds, such term means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the District and the Owners.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means (1) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2012 Bonds or of this Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, (2) all payments under the Water Contract and any other contract for the purchase of water, and (3) all payments under the Project Agreement, dated as of August 1, 1990, by and between the District and the San Luis & Delta-Mendota Water Authority; but excluding in all cases (y) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and (z) payments under the 1965 Contract.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the District) selected by the District. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel includes the statements provided for therein.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2012 Bonds, means (subject to the provisions of the Indenture) all 2012 Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) 2012 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2012 Bonds with respect to which all liability of the District has been discharged in accordance with the Indenture, including 2012 Bonds (or portions thereof) described therein; and (iii) 2012 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2012 Bonds has been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2012 Bond Owner. The term “Owner” or “2012 Bond Owner,” whenever used in the Indenture with respect to a 2012 Bond, means the person in whose name the ownership of such 2012 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, which are simultaneously issued or executed and delivered (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates

and in the same amounts, and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the District for the term of such Bond or Contract and the Paired Obligation Provider of which meets the Initial Rating Requirement and does not fall below the Minimum Rating Requirement.

Parity Project. The term “Parity Project” means any additions, betterments, extensions or improvements to the District’s Water System or Wastewater System designated by the Board of Directors of the District as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to the Indenture.

Permitted Investments. The term “Permitted Investments” means, if and to the extent permitted by law and by any policy guidelines promulgated by the District, for all purposes including defeasance investments in refunding escrow accounts: (i) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below); or (ii) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

For all purposes other than defeasance investments in refunding escrow accounts (a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly the Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association (GNMA), U.S. Department of Housing & Urban Development (PHA’s), Federal Housing Administration and Federal Financing Bank; (b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated “Aaa” by Moody’s or “AA+” by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies; (c) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have 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 maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (d) 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; (e) 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; (f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America 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 (i) which are rated, based on irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P and Moody’s or any successors thereto; or (ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow 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 specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (g) general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P; (h) Investment Agreements; (i) shares of beneficial interests in investments purchased by the Investment Trust of California, doing business as *CalTRUST*, a joint powers authority created pursuant to Section 6509.7 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; (j) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent

the Trustee is authorized to register such investment in its name; and (k) other forms of investments (including repurchase agreements) with notice to S&P. Whenever the District or the Trustee is required by the terms of this Indenture to value any of the above investments, the value thereof will be determined as set forth in the definition of Value in the Indenture.

Policy Costs. The term “Policy Costs” shall have the definition set forth in the Indenture.

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to the Indenture.

Provisional Water Service Contracts. The term “Provisional Water Service Contracts” means water made available to the District pursuant to Paragraph 5, or a contract between the District and the United States in accordance with Paragraph 12, of the Barcellos Judgment referred to under the definition of the 1965 Contract.

Rating. The term “Rating” means any currently effective rating on the 2012 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P and Fitch.

Rebate Fund. The term “Rebate Fund” means the fund by that name established for the 2012 Bonds pursuant to the Indenture.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (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 2012 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any 2012 Bond (or portion thereof), the principal amount of such 2012 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2012 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 2012 Bonds pursuant to the Indenture.

Reserve Fund. The term “Reserve Fund” means the fund by that name established pursuant to the Indenture.

Reserve Requirement. The term “Reserve Requirement” means \$5,775,000.

Reserve Surety Policy. The term “Reserve Surety Policy” means the municipal bond debt service reserve insurance policy issued by the Insurer and deposited in the Reserve Fund to satisfy the Reserve Requirement.

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.

Revenue Fund. The term “Revenue Fund” means the fund by that name established pursuant to the Indenture.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the sale, furnishing and supplying of the water, drainage or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including District reserves (other than funds which are restricted by law), (3) all benefit assessments (including investment earnings thereof) collected by or on behalf of the District, and (4) the proceeds of any stand-by or water availability charges collected by the District; but excluding in all cases (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, (y) proceeds of taxes or benefit assessments restricted by law to be used by the District to pay amounts due on bonds or other obligations incurred in the future, and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities.

S&P. The term “S&P” means Standard & 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 addresses and/or such other securities depositories as the District may designate in a Written Request of the District deliver to the Trustee.

Separate Facilities. The term “Separate Facilities” means any capital items acquired on or after the date of the Indenture and which were not financed from the proceeds of Bonds or Contracts of the District having a parity claim on the Revenue Fund or Revenues.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture duly authorized and entered into between the District and the Trustee in the future, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

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 2012 Bonds, issued by the District on the date of issuance of the 2012 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 as provided in the Indenture.

2002 Certificates. The term “2002 Certificates” means the District’s Revenue Certificates of Participation, Series 2002A.

2002 Installment Purchase Agreement. The term “2002 Installment Purchase Agreement” means that certain Installment Purchase Agreement dated as of May 1, 2001 by and between the District and the Corporation.

2005A Certificates. The term “2005A Certificates” means the District’s Revenue Certificates of Participation, Series 2005A.

2005A Installment Purchase Agreement. The term “2005A Installment Purchase Agreement” means that certain Installment Purchase Agreement dated as of December 1, 2004 by and between the District and the Corporation.

2007A Certificates. The term “2007A Certificates” means the District’s Revenue Certificates of Participation, Series 2007A.

2007A Installment Purchase Agreement. The term “2007A Installment Purchase Agreement” means that certain Installment Purchase Agreement, dated as of December 1, 2006, by and between the District and the Corporation.

2007B Certificates. The term “2007B Certificates” means the District’s Revenue Certificates of Participation, Series 2007B.

2007B Installment Purchase Agreement. The term “2007B Installment Purchase Agreement” means that certain Installment Purchase Agreement, dated as of November 1, 2007, by and between the District and the Corporation.

2008A Certificates. The term “2008A Certificates” means the District’s Adjustable Rate Refunding Revenue Certificates of Participation, Series 2008A.

2008A Installment Purchase Agreement. The term “2008A Installment Purchase Agreement” means that certain Installment Purchase Agreement dated as of March 1, 2008 by and between the District and the Corporation, as amended by Amendment No. 1 to Installment Purchase Agreement, dated as of September 1, 2011 by and between the District and the Corporation.

2012 Bonds. The term “2012 Bonds” means the Westlands Water District Refunding Revenue Bonds, Series 2012A issued under the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value,” which is determined as of the end of each month, means that the value of any investments is calculated as follows: (a) For the purpose of determining the amount of any fund, all Permitted Investments credited to such fund is valued at fair market value. The Trustee determines the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch and Morgan Stanley Smith Barney; (b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest; and (c) As to any investment not specified above: market value, or, if the market value is not ascertainable by the District or the Trustee, at cost.

Water Contract. The term “Water Contract” means the 1963 Water Contract and the Provisional Water Service Contracts, as each is renewed, amended or supplemented from time to time.

Water Service. The term “Water Service” means the water distribution service made available or provided by the Water System.

Water System. The term “Water System” means the whole and each and every part of the water and drainage system of the District, whether owned or operated by the District or the Bureau, including the portion thereof existing on the date of the Indenture, and including all additions, betterments, extensions and improvements to such water and drainage system or any part thereof acquired in the future or constructed but not including any Separate Facilities.

Written Consent of the District; Written Order of the District; Written Request of the District; Written Requisition of the 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 the President of its Board of Directors or its General Manager or its Secretary of its Board of Directors or by any two persons (whether or not officers of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for in the Indenture, with respect to compliance with any provision of the Indenture includes: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

## THE 2012 BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2012 Bonds, which 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 is, 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 2012 Bonds as provided for in the Indenture.

The person in whose name any 2012 Bond is registered is 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 2012 Bonds is made only to or upon the order in writing of such registered Owner, which payments are valid and effectual to satisfy and discharge liability upon such 2012 Bond to the extent of the sum or sums so paid.



2012 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2012 Bond becomes mutilated, the District, at the expense of the Owner of said 2012 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2012 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2012 Bonds so mutilated, but only upon surrender to the Trustee of the 2012 Bond so mutilated. Every mutilated 2012 Bond so surrendered to the Trustee will be canceled by it. If any 2012 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 2012 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2012 Bond so lost, destroyed or stolen (or if any such 2012 Bond has matured or is about to mature, instead of issuing a substitute 2012 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 2012 Bond issued under the Indenture and of the expenses which may be incurred by the District and the Trustee in the premises. Any 2012 Bond issued under the provisions of the Indenture in lieu of any 2012 Bond alleged to be lost, destroyed or stolen constitutes an original additional contractual obligation on the part of the District whether or not the 2012 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 2012 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2012 Bond for a 2012 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 2012 Bond upon receipt of indemnity satisfactory to the Trustee.

#### Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2012 Bonds, the District may provide that such 2012 Bonds are initially issued as book entry 2012 Bonds. If the District elects to deliver any 2012 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 2012 Bonds in an authorized denomination corresponding to that total principal amount of the 2012 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2012 Bond will be registered in the 2012 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2012 Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2012 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 2012 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 2012 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2012 Bond Registration Books, of any notice with respect to book entry 2012 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2012 Bonds to be redeemed in the event the District redeems the 2012 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 2012 Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2012 Bond is registered in the 2012 Bond Registration Books as the absolute Owner of such book entry 2012 Bond for the purpose of payment of principal of, premium and interest on such 2012 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2012 Bond, for the purpose of registering transfers with respect to such 2012 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2012 Bonds only to or upon the order of the respective Owner, as shown in the 2012 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 2012 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2012 Bond Registration Books, will receive a 2012 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2012 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 2012 Bonds for the Depository's book entry system, the District and the Trustee will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2012 Bonds other than the Owners, as shown on the 2012 Bond Registration Books. By executing a Letter of Representations, the Trustee agrees 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 2012 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 2012 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 2012 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 2012 Bond for each of the maturity dates of such book entry 2012 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 2012 Bonds are no longer restricted to being registered in such 2012 Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2012 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 2012 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2012 Bond and all notices with respect to such 2012 Bond will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2012 Bonds to Substitute Depository. (i) The 2012 Bonds are initially issued as provided in the Indenture. Registered ownership of such 2012 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 the Indenture ("Substitute Depository"); provided that any successor of DTC or Substitute Depository is 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 is 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 the Indenture, upon receipt of all Outstanding 2012 Bonds by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new 2012 Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of 2012 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 the Indenture, upon receipt of all Outstanding 2012 Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2012 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 2012 Bonds within a period of less than sixty (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 2012 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 2012 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee will not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2012 Bonds will be controlling.

(iv) The District and the Trustee will be entitled to treat the person in whose name any 2012 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 will not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2012 Bonds. Neither the District nor the Trustee has 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 2012 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2012 Bonds.

#### VALIDITY OF 2012 BONDS

Validity of 2012 Bonds. The validity of the authorization and issuance of the 2012 Bonds is not dependent on and is not 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 2012 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.

#### REDEMPTION OF 2012 BONDS

Selection of 2012 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2012 Bonds, the Trustee will select the 2012 Bonds for redemption as a whole or in part on any date as directed by the District, and, in the event of a redemption in accordance with the Indenture, approved in writing by the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), 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 2012 Bonds or portions thereof so selected for redemption.

Partial Redemption of 2012 Bonds. Upon surrender of any 2012 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 2012 Bond or 2012 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2012 Bonds surrendered and of the same series, interest rate and maturity.

Effect of Redemption. Notice of redemption having been duly given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2012 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2012 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2012 Bonds so called for redemption will cease to accrue, said 2012 Bonds (or portions thereof) will cease to

be entitled to any benefit or security under the Indenture, and the Owners of said 2012 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 2012 Bonds to be redeemed on their Redemption Dates, pay such 2012 Bonds at the Redemption Price. All 2012 Bonds redeemed pursuant to the provisions of the Indenture are canceled upon surrender thereof.

REVENUES, FUNDS AND ACCOUNTS;  
PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Revenue Fund. (a) All of the Revenues, all amounts held in the Revenue Fund described in subsection (b) below and any other amounts (including proceeds of the sale of the 2012 Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2012 Bonds in accordance with their terms and the provisions of the Indenture, subject however to the pledge thereon securing Bonds and Contracts, and the Revenues will not be used for any other purpose while the 2012 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. Said pledge, together with the pledge created for the benefit of other Bonds and Contracts, constitutes a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Indenture, the Revenue 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 2012 Bonds in accordance with the terms of the Indenture, and attaches, is perfected and is valid and binding from and after the Closing Date, without any physical delivery thereof or further act and is 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.

(b) In order to carry out and effectuate the pledge and lien contained in the Indenture, the District will receive all Revenues in trust under the Indenture and will deposit said Revenues when and as received in a special fund designated as the "Revenue Fund," which fund is continued and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as the 2012 Bonds remain unpaid. Moneys in the Revenue Fund are used and applied by the District as provided in the Indenture. All moneys in the Revenue Fund are held in trust and are applied, used and withdrawn for the purposes set forth in the Indenture.

The District will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter all remaining moneys in the Revenue Fund will be applied by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the Indenture:

(i) Interest and Principal Payments. Not later than five (5) Business Days prior to each Interest Payment Date, the District will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund the amount, if any, necessary for the payments of interest and principal, including mandatory sinking fund installments, if any, on the 2012 Bonds due and payable on such Interest Payment Date. The District will also, from the moneys in the Revenue Fund, transfer to the respective trustee for deposit in the applicable 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 the Bond, Contract, resolution or indenture relating thereto.

(ii) Reserve Funds. Not later than five (5) Business Days prior to each Interest Payment Date, the District will, from the remaining moneys in the Revenue 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 for such other 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. No such transfer will be made with respect to the Reserve Fund, which is deemed fully funded at all times by the deposit of the Reserve Surety Policy therein.

(iii) Surplus. On the last day of each month, moneys on deposit in the Revenue Fund not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law, including but not limited to payments under the 1965 Contract, any Termination Payment or other unpaid amounts due on obligations subordinate to the Indenture.

All moneys held by the District in the Revenue Fund are invested in Permitted Investments and the investment earnings thereon remain on deposit in such fund, except as otherwise provided in the Indenture.

Application of Payment Fund. There is established with the Trustee the Payment Fund, which the Trustee covenants 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 2012 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2012 Bonds transferred by the District from the Revenue Fund to the Payment Fund pursuant to the Indenture are promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund are promptly deposited therein. All payments of interest and principal on the 2012 Bonds deposited with the Trustee are held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee has established and held an Interest Account and a Principal Account within the Payment Fund.

The Trustee will transfer from the 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 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 Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all 2012 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such Interest Payment Date on all 2012 Bonds then Outstanding. (b) Not later than the Business Day preceding each date on which the principal of the 2012 Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2012 Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date. No deposit need be made into the Principal Account so long as there is in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2012 Bonds then Outstanding.

Application of Interest Account. All amounts in the Interest Account are used and withdrawn by the Trustee solely for the purpose of paying interest on the 2012 Bonds as it becomes due and payable (including accrued interest on any 2012 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Application of Principal Account. All amounts in the Principal Account are used and withdrawn by the Trustee solely to pay the principal amount of the 2012 Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2012 Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2012 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2012 Bonds.

Application of Redemption Fund. There is established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund are used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2012 Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2012 Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of 2012 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the District, except that the

purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2012 Bonds.

Investments. All moneys in any of the funds or accounts established with the District or the Trustee pursuant to the Indenture are invested by the District or the Trustee, as the case may be, solely in Permitted Investments that mature or the principal of and interest on which are available on or before the date such monies are anticipated to be needed under the Indenture. Any investments by the Trustee are directed by the District pursuant to a Written Request of the District filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions are promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee invests any such moneys in Permitted Investments described in clause (e) of the definition thereof; provided, however, that any such investment is made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee receives 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 holds such moneys uninvested. Obligations purchased as an investment of moneys in any fund are 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 are deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it under the Indenture. 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 acknowledges 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 Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee and brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's Online Trust and Custody service and upon electing such service; paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, 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 and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or an affiliate. 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 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 accounting system.

#### Rebate Fund.

(a) Establishment. The Trustee has established a fund for the 2012 Bonds designated the "Rebate Fund." Except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2012 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 2012 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 2012 Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) is deemed conclusively to have complied with the provisions of the Indenture and thereof if it follows all Requests of the District; and (ii) has no liability or responsibility to enforce compliance by the District with the terms of the Indenture and the Tax Certificate; and (iii) may rely conclusively on the District's calculations and determinations and certifications relating to rebate matters; and (iv) 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 Indenture or 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 Indenture.

(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 will equal the amount of Rebatable Arbitrage so calculated in accordance with the Indenture. 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 Payment Fund.

(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 2012 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 Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the 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 2012 Bonds and the payments described in subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture survives the defeasance or payment in full of the 2012 Bonds.

Application of Funds and Accounts When No 2012 Bonds are Outstanding. On the date on which all 2012 Bonds are retired under the Indenture or provision made therefor pursuant to the Indenture and after payment of all amounts due the Trustee under the Indenture, 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.

Reserve Fund. The Trustee will establish and hold in trust the Reserve Fund. The District will deposit the Reserve Surety Policy in the Reserve Fund and the Trustee will draw upon the Reserve Surety Policy in accordance with the Indenture. As long as the Reserve Surety Policy is in full force and effect, and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the District and Trustee must comply with the following provisions:

(a) In the event and to the extent that moneys on deposit in the Payment Fund, plus all amounts on deposit in and credited to the Reserve Fund in excess of the amount of the Reserve Surety Policy, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) Business Day after receipt by the Insurer of a Notice of Nonpayment (as such terms are defined in the Reserve Surety Policy), duly executed by the Trustee certifying that payment due under the Indenture has not been made to the Trustee; or (ii) the Interest Payment Date, the Insurer will make a deposit of funds in an account with the Trustee or its successor sufficient for the payment to the Trustee of amounts which are then due to the Trustee under the Indenture up to but not in excess of the Policy Limit, as defined in the Reserve Surety Policy; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Reserve Surety Policy, includes amounts available under a letter of credit, insurance policy, reserve surety policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Surety Policy and the Additional Funding Instrument will be made on a pro rata basis to fund the insufficiency.

(b) The District will repay any draws under the Reserve Surety Policy and pay all related reasonable expenses incurred by the Insurer. Interest will accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of: (i) the greater of: (A) the per annum rate of interest, publicly announced from time to time by JP Morgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JP Morgan Chase Bank) plus 3%; and (B) the then applicable highest rate of interest on the Bonds; and (ii) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate is computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JP Morgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate will be the publicly announced prime or base lending rate of such national bank as the Insurer will specify.

(c) Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(d) Amounts in respect of Policy Costs paid to the Insurer will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Surety Policy will be increased by a like amount, subject to the terms of the Reserve Surety Policy.

(e) All cash and investments in the Reserve Fund will be transferred to the Payment Fund for payment of the principal of and interest on the 2012 Bonds before any drawing may be made on the Reserve Surety Policy or any other credit facility credited to the Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs will be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Surety Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(f) If the District fails to pay any Policy Costs in accordance with the requirements of the Indenture, the Insurer will be entitled to exercise any and all legal and equitable remedies available to it, including those



provided under the Indenture other than: (i) acceleration of the maturity of the payments of principal of and interest on the 2012 Bonds; or (ii) remedies which would adversely affect Owners of the 2012 Bonds.

(g) The Trustee will ascertain the necessity for a claim upon the Reserve Surety Policy in accordance with the provisions of the Indenture and provide notice to the Insurer in accordance with the terms of the Reserve Surety Policy at least five (5) Business Days prior to an Interest Payment Date. Where deposits are required to be made by the District with the Trustee to the Payment Fund for the payment of principal of and interest on the 2012 Bonds more often than semi-annually, the Trustee is instructed to give notice to the Insurer of any failure of the District to make timely payment in full of such deposits within two Business Days of the date due.

So long as the Reserve Surety Policy is in full force and effect and the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, future deposits of a surety in the Reserve Fund require the prior written consent of the Insurer.

#### PARTICULAR COVENANTS

Compliance with Indenture. The Trustee will not authenticate or deliver any 2012 Bond in any manner other than in accordance with the provisions of the Indenture, and the District will not suffer or permit any default by it to occur under the Indenture, but will faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may later be lawfully imposed upon the Water System, Wastewater System, or any part thereof or upon the Revenues when the same becomes due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System, Wastewater 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.

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 it 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, including its right to exist and carry on its business, to the end that such contracts, rights and franchises are maintained and preserved, and are not abandoned, forfeited or in any manner impaired.

Eminent Domain. If all or any part of the Water System or Wastewater System is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner specified in the Indenture.

Eminent Domain Proceeds. If all or any part of the Water System or Wastewater System is taken by eminent domain proceedings, the Net Proceeds thereof are to be applied as follows:

(a) If (1) the District files with the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Water System or Wastewater System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations under the Indenture will not be substantially impaired (which determination is final and conclusive), then the District will promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements

substantially in accordance with such certificate and such Net Proceeds will be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds will be applied by the District in part to the prepayment of the 2012 Bonds as provided in the Indenture and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of principal and Interest due on the 2012 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease, and will use its best efforts to cause the Bureau not to enter into any agreement or lease, which impairs the operation of the Water System or any part thereof necessary to secure adequate Revenues for the payment of the 2012 Bonds, or which would otherwise impair the rights of the Trustee under the Indenture or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water 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 2012 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

The Indenture does not restrict the ability of the District to sell any portion of the Water System if such portion of the Water System is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the District of or otherwise interfere with its rights to own or operate such portion of the Water System.

Against Competitive Facilities. The District will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers and excluding any water system existing on the date of execution of this Indenture, 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 system competitive with the Water System; provided, however, that for purposes of the Indenture, acquisition, construction, maintenance or operation of the Water System by the Bureau, acting with the approval of the District, will not be deemed to constitute a competitive water system.

Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance 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 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 and interest on the 2012 Bonds or to the Owners prior or superior to the lien of the 2012 Bonds or which might impair the security of the principal and interest due on the 2012 Bonds.

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 the Water Contract and all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the District is a party thereto.

Insurance. (a) The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available at reasonable rates.

In the event of any damage to or destruction of the Water 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 System. The District will begin such reconstruction, repair or replacement promptly

after receipt of such Net Proceeds, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Water System will be free and clear of all claims and liens. The District covenants to reconstruct, repair or replace the damaged or destroyed portions of the Water System promptly if a failure to reconstruct, repair or replace such portions would impair or adversely affect the ability of the District to pay the 2012 Bonds.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be applied in part to the prepayment of 2012 Bonds as provided in the Indenture and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of 2012 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced by the Indenture prior to the final due date of the 2012 Bonds as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and thereupon such Net Proceeds will be applied to the prepayment of 2012 Bonds as provided in the Indenture and to the retirement of such Bonds and Contracts.

(b) The District will procure and maintain such other insurance which it deems advisable or necessary to protect its interests and the interests of the Trustee, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water 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 systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

Collection of Rates and Charges. The District will have in effect at all times rules and regulations requiring each landowner or water user located on any land served by the Water System to pay the rates, charges and assessments applicable to the Water Service to such land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District may discontinue such service from the Water System, and such service will not thereafter be recommenced except in accordance with District rules and regulations governing such situations of delinquency.

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 and interest on the 2012 Bonds.

Continuing Disclosure. The District covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate is not 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 its obligations under the Indenture. For purposes of the Indenture, "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 2012 Bond (including persons holding 212 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2012 Bond for federal income tax purposes.

Covenant to Levy Ad Valorem Assessments. The District will, to the extent it determines that Net Revenues for any Fiscal Year will be less than Debt Service for such Fiscal Year, levy and collect an ad valorem assessment on all land in the District in accordance with the Law sufficient to make all payments under the 1963 Contract and the 1965 Contract.

Punctual Payment. The District will cause the Trustee to pay the principal and interest to become due in respect of all of the 2012 Bonds, in strict conformity with the terms of the 2012 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2012 Bonds. The District will not directly or indirectly extend or assent to the extension of the maturity of any of the 2012 Bonds or the time of payment of any claims for interest by the purchase of such 2012 Bonds or by any other arrangement, and in case the maturity of any of the 2012 Bonds or the time of payment of any such claims for interest is extended, such 2012 Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2012 Bonds then Outstanding and of all claims for interest thereon which have not been so extended.

Against Encumbrances. The District will not make any pledge of or place any lien on Revenues or the moneys in the Revenue 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 or incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Revenue 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 2012 Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2012 Bonds and to enter into the Indenture and to pledge and assign the 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 2012 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 Revenues and other assets and all the rights of the 2012 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The District will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the District, which records are available for inspection by the Trustee at reasonable hours and under reasonable conditions.

Tax Covenants. Notwithstanding any other provision of the Indenture, and except as may otherwise be approved by an opinion of Bond Counsel that the exclusion from gross income of the portion of interest on the 2012 Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2012 Bonds and specifically covenants, 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 2012 Bonds or of any other moneys or property which would cause the 2012 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 2012 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 2012 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 2012 Bonds or take or omit to take any action that would cause the 2012 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 2012 Bonds pursuant to Section 103(a) of the Code; (e) Hedge Bonds. The District will make no use of the proceeds of the 2012 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 2012 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 2012 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 2012 Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture. The covenants set forth in the Indenture are not applicable to, and nothing contained therein is deemed to prevent the District from issuing the Bonds or Contracts 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 2012 Bonds, and all benefit or advantage of any such law or laws is 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 assurances, instruments and resolutions 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 2012 Bonds of the rights and benefits provided in the Indenture.

Prosecution and Defense of Suits. The District will promptly, upon request of the Trustee or any 2012 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 Revenues or any part thereof, whether now existing or later developing, will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee (including all of its employees, officers and directors), the Trustee and every 2012 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 2012 Bond Owner upon any claim by a 2012 Bond Owner or a third party arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2012 Bonds or involving the rights of the Trustee or any 2012 Bond Owner under the Indenture; provided that the Trustee or any 2012 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 2012 Bond Owners against any and all liability claimed or asserted by any such person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2012 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 2012 Bonds. The District will promptly reimburse any 2012 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 2012 Bonds, provided that such litigation is concluded favorably to such party's contentions therein.

#### EVENTS OF DEFAULT AND REMEDIES OF 2012 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 2012 Bonds when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise. (b) Default by the District in the due and punctual payment of any installment of interest on any 2012 Bonds when and as the same becomes 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 2012 Bonds if such default has continued for a period of thirty (30) 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 2012 Bonds Outstanding; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such thirty (30) day period and corrective action is instituted by the District, with the written approval of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), within such thirty (30) day period and diligently pursued in good faith until the default is corrected such default is not an Event of Default under the Indenture. (d) The District will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction 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. (e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Remedies Upon Event of Default. If any Event of Default specified in the Indenture occurs and continues, the Trustee will, with the written approval of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), and for any other Event of Default, the Trustee may, with the written approval of the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), which consent is at the sole discretion of the Insurer, in each case, upon notice in writing to the District, declare the principal of all of the 2012 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same becomes and is immediately due and payable, anything in the Indenture or in the 2012 Bonds contained to the contrary notwithstanding. Nothing contained in the Indenture permits or requires the Trustee to accelerate payments due under the Indenture if the District is not in default of its obligation under the Indenture.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District will deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the 2012 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2012 Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee, has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case the Trustee will on behalf of the Owners of all of the 2012 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment extends to or affects any subsequent Event of Default, or impairs or exhausts any right or power consequent thereon.

Application of Revenues and Other Funds After Default. Upon the date of the declaration of acceleration as provided in the Indenture, all Revenues thereafter received by the District will be applied in the following order -- First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation and Trustee if any, in carrying out the provisions of the Indenture, including reasonable compensation to their respective accountants and

counsel; Second, to the payment of the Operation and Maintenance Costs; and Third, to the payment of the entire principal amount of the unpaid 2012 Bonds and the unpaid principal amount of all Bonds and Contracts and interest with respect thereto, with respect to the overdue installments at the rate or rates of interest applicable to the 2012 Bonds and such Bonds and Contracts if paid in accordance with their respective terms.

Trustee to Represent 2012 Bond Owners. Subject to the Indenture, the Trustee is irrevocably appointed (and the successive respective Owners of the 2012 Bonds, by taking and holding the same, is conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2012 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 2012 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 2012 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 2012 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 in the Indenture 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 2012 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 Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2012 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2012 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee is brought in the name of the Trustee for the benefit and protection of all the Owners of such 2012 Bonds, subject to the provisions of the Indenture.

2012 Bond Owners' Direction of Proceedings. Subject to the Indenture, anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2012 Bonds then Outstanding has 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 is not 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 2012 Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2012 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 2012 Bonds, unless: (a) such Owners has given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2012 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners has 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 sixty (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 sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2012 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of 2012 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2012 Bonds has 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 2012 Bonds, or to enforce any right under the 2012 Bonds, the Indenture, or applicable law with respect to the 2012 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right is instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2012 Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the District. Nothing in the Indenture or in the 2012 Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2012 Bonds to the respective Owners of the 2012 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2012 Bonds.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the 2012 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, is 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 2012 Bonds to exercise any right or power arising upon the occurrence of any Event of Default impairs any such right or power or is construed to be a waiver of any such Event of Default or an acquiescence therein.

Insurer Rights. The Insurer is deemed to be the sole holder of the 2012 Bonds insured under the Insurance Policy for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2012 Bonds insured by it are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

#### 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 are 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 man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The District may remove the Trustee at any time, unless an Event of Default has occurred and is 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 2012 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 promptly appoints 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 2012 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 becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2012 Bond Owner (on behalf of himself and all other 2012 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, becomes vested with all the moneys, estates, properties, rights,



powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the 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 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 2012 Bonds and to the 2012 Bond Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within fifteen (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 will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank is deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it 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 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 2012 Bonds are 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 2012 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 in the Indenture or in the 2012 Bonds assigned to or imposed upon it. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the 2012 Bonds. The Trustee is not 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 2012 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 2012 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2012 Bonds then Outstanding.

(b) The Trustee is not liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee is not 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 2012 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 is not 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 is not deemed to have knowledge of any Default or Event of 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 under the Indenture 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 fifty percent (50%) of the 2012 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 of any of the documents executed in connection with the 2012 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 or direction of Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture is construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision therein relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Indenture.

(i) The Trustee has no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2012 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 is not considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Revenues, 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 agrees to accept and act upon instructions or directions pursuant to the Indenture sent by secured e-mail, facsimile transmission or other similar secured 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 is amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions is 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 such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The Trustee is under no obligation to exercise any of the rights or powers vested in it at the request, order or direction of any of the Owners pursuant to the provisions of the Indenture unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(p) The permissive right of the Trustee to do things enumerated in the Indenture is not construed as a duty and it is not answerable for other than its negligence or willful misconduct.

(q) The Trustee has no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the 2012 Bonds.

Right to Rely on Documents. The Trustee is 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 is 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 2012 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2012 Bonds for all purposes and the Trustee is not 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 under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture 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 is 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 their respective possession and will be subject at all reasonable times to the inspection of the District, and any 2012 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 indemnifies, defends and holds 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 to a 2012 Bond Owner or a third party without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust created under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the indemnification obligations of the District will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2012 Bonds and the Indenture.

Notice to Insurer by Trustee. The Trustee will notify the Insurer of any failure of the District to provide notices, certificates and other information under the transaction documents of which the Trustee has actual or deemed knowledge pursuant to the Indenture.

#### MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted. (a) The Indenture and the rights and obligations of the District and of the Owners of the 2012 Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the District and the Trustee may enter into when the written consent of the Insurer, so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy. No such modification or amendment will: (1) extend the fixed maturity of any 2012 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 2012 Bond so affected; or (2) eliminate the aforesaid consent of the Insurer required to affect any such modification or amendment, or permit the creation of any lien on the 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 2012 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted in the Indenture without the consent of the Insurer. It is not necessary for the consent of the Insurer to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the 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 2012 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 Trustee and the Owners of the 2012 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any 2012 Bond Owners, but with the written consent of the Insurer so long as the Insurer has not defaulted on any obligation under the Insurance Policy of the Reserve Surety Policy, if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding 2012 Bonds, 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 2012 Bonds (or any portion thereof), or to surrender any right or power in the Indenture 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 of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute under the Indenture 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 2012 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 2012 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 is deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee, the Insurer and all Owners of 2012 Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture is deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of 2012 Bonds; Preparation of New 2012 Bonds. 2012 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 2012 Bonds Outstanding at the time of such execution and presentation of his or her 2012 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such 2012 Bonds. If the Supplemental Indenture so provides, new 2012 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 2012 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2012 Bond Owner, for 2012 Bonds then Outstanding, upon surrender for cancellation of such 2012 Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2012 Bonds. The provisions of the Indenture do not prevent any 2012 Bond Owner from accepting any amendment as to the particular 2012 Bonds held by such 2012 Bond Owner.

Effect of Insurance Policy. In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the 2012 Bonds or the rights of the Owners, the Trustee must consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

## DEFEASANCE

Discharge of Indenture. The 2012 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 such 2012 Bonds, as and when the same become due and payable; (b) by the deposit 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 2012 Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2012 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 such 2012 Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture, and all covenants, agreements and other obligations of the District under the Indenture ceases, terminates, becomes void and is 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 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 such 2012 Bonds not theretofore surrendered for such payment or redemption to the District. The Indenture cannot be discharged until all Policy Costs and any other amounts owing to the Insurer with respect to the Insurance Policy have been paid in full. The District's obligation to pay such amounts expressly survives payment in full of the payments of principal of and interest on the 2012 Bonds.

Discharge of Liability on 2012 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 2012 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2012 Bonds), provided that, if such Outstanding 2012 Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, then all liability of the District in respect of such 2012 Bonds ceases, terminates and is completely discharged, and the Owners thereof are thereafter 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 2012 Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2012 Bonds, upon such surrender and cancellation, are 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 2012 Bonds, the money or securities so to be deposited or held must be invested in Defeasance 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 2012 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2012 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held is the principal amount of such 2012 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Defeasance 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 2012 Bonds to be paid or redeemed as directed by the District as such principal, interest and premium, if any, become due, provided that in the case of 2012 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 2012 Bonds as directed by the District; (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 2012 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); (iii) the District has delivered an escrow agreement (which will be acceptable in form and substance to the Insurer, so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy); and (iv) the District has delivered a certificate of discharge of the Trustee with respect to the 2012 Bonds. The opinion of Bond Counsel and Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above will be acceptable in form and substance, and addressed, to the District, Trustee and Insurer (so long as the Insurer has

not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy). The Insurer will be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow. 2012 Bonds are deemed Outstanding under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

Payment of 2012 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 2012 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2012 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2012 Bonds became due and payable, is repaid to the District free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2012 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys thereupon ceases; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee will at the written direction of the District (at the cost of the District), first mail to the Owners of 2012 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 2012 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

Liability Limited. Notwithstanding anything in the Indenture or the 2012 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the District is not required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the 2012 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.

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 is deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the District or the Trustee binds and inures to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2012 Bond Owners. Nothing in the Indenture or in the 2012 Bonds expressed or implied is intended or construed to give to any person other than the District, the Trustee, the Insurer and the Owners of the 2012 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, the Insurer and the Owners of the 2012 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 is not 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 2012 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2012 Bonds, the Trustee will destroy such 2012 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 2012 Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions is deemed severable from the remaining provisions contained in the Indenture and such invalidity,

illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture is construed as if such invalid or illegal or unenforceable provision had never been contained therein. The District declares that it would have entered into the Indenture and authorized the issuance of the 2012 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 2012 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2012 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2012 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 2012 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 2012 Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2012 Bond will bind every future Owner of the same 2012 Bond and the Owner of every 2012 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 2012 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2012 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2012 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 2012 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 2012 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2012 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such 2012 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 2012 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 2012 Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2012 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2012 Bonds (or portions of 2012 Bonds in the case of registered 2012 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 2012 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 2012 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 2012 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained 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 will be liable for any defect or inaccuracy in the CUSIP number that appears on any 2012 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 2012 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2012 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 OF CALIFORNIA.

Insurer as Third Party Beneficiary. The Insurer is intended as a third party beneficiary to the Indenture.

Impairment of Insurer's Rights. No contract may be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the 2012 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

Interest Rate Exchange Agreement. Any interest rate exchange agreement ("Swap Agreement") entered into by the District must meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (iii) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Swap Agreement must not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), any uninsured net settlement, breakage or other termination amount then in effect will be subordinate to the payment of principal of and interest on the 2012 Bonds and on any debt on parity with Contracts or Bonds. The District may not terminate a Swap Agreement unless it demonstrates to the satisfaction of the Insurer prior to the payment of any such termination amount that such payment will not cause the District to be in default under the Indenture or any supplement thereto or amendment thereof, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement must have a rating of at least "A-" and "A3" by S&P and Moody's. If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor must execute a credit support annex to the Swap Agreement, which credit support annex will be acceptable to the Insurer. If the counterparty or the guarantor's long term unsecured rating falls below "Baal" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to the Insurer (so long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy), will be required.

Insurer Consideration. The rights granted to the Insurer under the Indenture or any supplement thereto or amendment thereof to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and may not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

Amounts Paid by Insurer. Amounts paid by the Insurer under the Insurance Policy will not be deemed paid for purposes of the Indenture and the 2012 Bonds relating to such payments will remain Outstanding and continue to be due and owing until paid by the District in accordance with the Indenture. The Indenture may not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

Covenant to Preserve Priority. Each of the District and Trustee covenant and agree to take such action (including, as applicable, filing of Uniform Commercial Code financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Revenues set forth in the Indenture under applicable law.

Subrogation and Survival of Obligations. The Insurer will, to the extent it makes any payment of principal of or interest on the 2012 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the District to the Insurer under the Indenture or any

supplement thereto or amendment thereof will survive discharge or termination of the Indenture or any supplement thereto or amendment thereof.

Reimbursement of Fees. The District will pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or any supplement thereto or amendment thereof; (ii) the pursuit of any remedies under the Indenture or any supplement thereto or amendment thereof or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any supplement thereto or amendment thereof whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any supplement thereto or amendment thereof or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any supplement thereto or amendment thereof.

Provision of Information. So long as the Insurer has not defaulted on any obligation under the Insurance Policy or the Reserve Surety Policy, the Insurer will be provided with the following information by the District or Trustee, as the case may be:

Annual audited financial statements within 270 days after the end of the District's Fiscal Year (together with a certification of the District that it is not aware of any default or Event of Default under the Indenture), and the District's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer will reasonably request from time to time;

Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of the 2012 Bonds;

Notice of any default known to the Trustee or District within five Business Days after knowledge thereof;

Prior notice of the advance refunding or redemption of any of the 2012 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

Notice of the commencement of any proceeding by or against the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2012 Bonds;

A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Indenture or any supplement thereto or amendment thereof; and

All reports, notices and correspondence to be delivered to Owners under the terms of the Indenture and any supplement thereto or amendment thereof.

All information furnished pursuant to the Continuing Disclosure Certificate will also be provided to the Insurer, simultaneously with the filing of the Continuing Disclosure Certificate with any electronic repository.

Additional Information. The Insurer has the right to receive such additional information as it may reasonably request.

Discussion of and Access to Information. The District will permit the Insurer to discuss the affairs, finances and accounts of the District or any information the Insurer may reasonably request regarding the security for the 2012 Bonds with appropriate officers of the District and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the District on any business day upon reasonable prior notice.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX C

### FORM OF BOND COUNSEL'S OPINION

*Upon issuance of the 2012 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

October \_\_, 2012

Westlands Water District  
3130 N. Fresno Street  
Fresno, California 93703

*Re: Westlands Water District Refunding Revenue Bonds, Series 2012A*

Members of the Board of Directors:

We have examined a certified copy of the record of the proceedings of the Westlands Water District (the "District") relative to the issuance of the \$\_\_\_\_\_ Westlands Water District Refunding Revenue Bonds, Series 2012A (the "2012 Bonds"), dated the date hereof, 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 2012 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2012 Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2012 (the "Indenture"), by and between the District and Union Bank, N.A., as trustee (the "Trustee"). The 2012 Bonds mature on the dates and in the amounts referenced in the Indenture. The 2012 Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The 2012 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 2012 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 2012 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 2012 Bonds from Net Revenues (as defined in the Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2012 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 on the 2012 Bonds is exempt from State of California personal income tax.

5. The amount by which a 2012 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2012 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 2012 Bond Owner’s basis in the applicable 2012 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 2012 Bond premium may result in a 2012 Bond Owner realizing a taxable gain when a 2012 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2012 Bond to the Owner. Purchasers of the 2012 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 2012 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 2012 Bonds to assure that such interest on the 2012 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2012 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. The Indenture and the Tax Certificate relating to the 2012 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the 2012 Bonds for federal income tax purposes with respect to any 2012 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 2012 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 2012 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.

We are admitted to the practice of law only in the State of California and 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 2012 Bonds or other offering material relating to the 2012 Bonds and expressly disclaim any duty to advise the owners of the 2012 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

## APPENDIX D

### INFORMATION CONCERNING DTC

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter take any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2012 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2012 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2012 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 2012 Bonds. The 2012 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 2012 Bond will be issued for each annual maturity of the 2012 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012 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 2012 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 2012 Bonds representing their ownership interests in 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

To facilitate subsequent transfers, all 2012 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 2012 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 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose

accounts such 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2012 Bond documents. For example, Beneficial Owners of 2012 Bonds may wish to ascertain that the nominee holding the 2012 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 2012 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 2012 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 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2012 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 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 2012 Bond Owner shall give notice to elect to have its 2012 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2012 Bonds by causing the Direct Participant to transfer the Participant's interest in the 2012 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2012 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2012 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2012 Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2012 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates 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, 2012 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2012 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2012 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.



## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the 2012 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 the Westlands Water District (the “District”) in connection with the issuance of its \$\_\_\_\_\_ Revenue Refunding Bonds, Series 2012A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2012 (the “Indenture”), by and between the District and Union Bank, N.A., as trustee (the “Trustee”). 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 Indenture, 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” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean 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” shall mean 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” shall mean the one year period ending on the last day of February of each year.

“Holder” means a registered Owner of the Bonds.

“Listed Events” shall mean any of the events listed in Sections 5(a) and 5(b) of this Disclosure Certificate.

“Official Statement” shall mean the Official Statement dated \_\_\_\_\_, 2012 relating to the Bonds.

“Participating Underwriter” shall mean any of the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean 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.

“State” shall mean the State of California.

3. Provision of Annual Reports.

(a) The District shall provide not later than 270 days following the end of its Fiscal Year (commencing with the Fiscal Year ending February 28, 2013) 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 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 the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financing statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Principal amount of the Bonds outstanding.

(c) Balance in the Reserve Fund and a statement of the reserve requirement with respect thereto.

(d) An update of the information in the following tables or paragraphs under caption entitled "THE DISTRICT" in the Official Statement:

1. "CALENDAR YEAR 2011 CROP VALUES;"
2. "HISTORIC WATER USAGE;" and
3. "HISTORIC OPERATING RESULTS AND DEBT SERVICE COVERAGE."

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 or the Securities and Exchange Commission; 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 redemption 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 Stradling Yocca Carlson & Rauth, a Professional Corporation, or another

nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. The District will provide notice of such amendment to the Municipal Securities Rulemaking Board.

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 Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, 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. Dissemination Agent. The District may from time to time appoint or engage a dissemination agent to assist the District in carrying out its obligations under this Disclosure Certificate and may discharge any such dissemination agent with or without appointing a successor dissemination agent.

12. 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: October 1, 2012

WESTLANDS WATER DISTRICT

By: \_\_\_\_\_  
Its: President of the Board of Directors

**APPENDIX F**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer



[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



