

In the opinion of Best Best & Krieger LLP, Riverside, California (“Bond Counsel”), subject, however, to certain qualifications described in this Official Statement, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds is excluded from gross income for federal income tax purposes, and interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, for tax years beginning after December 31, 2022, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See “TAX EXEMPTION” herein.

\$11,205,000
FALLBROOK PUBLIC UTILITY DISTRICT
2024 Water Revenue Bonds

Dated: Date of Issuance**Due: December 1, as shown on inside front cover**

The 2024 Water Revenue Bonds (the “Bonds”) are being issued by the Fallbrook Public Utility District (the “District”) to (i) finance capital improvements for the District’s water system; (ii) purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Insured Bonds (as defined below) and (iii) pay the costs of issuing the Bonds. See “PLAN OF FINANCE.”

Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2024. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to The Depository Trust Company (“DTC”), or its nominee, Cede & Co., by U.S. Bank Trust Company, National Association, as trustee (the “Trustee”), so long as DTC or Cede & Co. is the registered owner of the Bonds.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds. Disbursements of payments to DTC’s Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC’s Participants and Indirect Participants, as more fully described herein. See APPENDIX D – BOOK-ENTRY SYSTEM.

The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS – Redemption.”

The Bonds are special limited obligations of the District, secured by and payable from a first pledge of and lien on the Net Revenues (defined herein) of the Water System (defined herein) and from amounts on deposit in certain funds and accounts established under the Indenture (defined herein). The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District as described herein. The District is not funding a debt service reserve fund for the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The District has outstanding debt that is payable from the Net Revenues of the Water System on a parity basis with the Bonds and may enter into additional parity obligations in the future, subject to the conditions set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Debt.”

The scheduled payment of principal of and interest on the Bonds maturing on December 1st in the years 2030 through 2053, inclusive, (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.



This cover page contains information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors must read the entire Official Statement before making any investment decision.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND OTHER FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE DISTRICT) IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE DISTRICT’S OBLIGATION TO PAY DEBT SERVICE ON THE BONDS IS AN OBLIGATION PAYABLE SOLELY FROM THE DISTRICT’S WATER FUND. THE OBLIGATION OF THE DISTRICT TO PAY DEBT SERVICE DOES NOT CONSTITUTE A DEBT 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 Bonds are offered when, as and if issued subject to the approval, as to their validity, by Best Best & Krieger LLP, Riverside, California, Bond Counsel to the District, and certain other conditions. Best Best & Krieger LLP is also serving as Disclosure Counsel to the District. Certain legal matters will be passed upon for the District by Best Best & Krieger LLP, as general counsel to the District and for Stifel, Nicolaus & Company, Incorporated, the underwriter (the “Underwriter”) by Stradling Yocca Carlson & Rauth LLP. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about March 14, 2024.

STIFEL

MATURITY SCHEDULE

\$11,205,000
FALLBROOK PUBLIC UTILITY DISTRICT
2024 Water Revenue Bonds

\$5,630,000 Serial Bonds

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†] (Base: 306428)
2024	\$ 65,000	5.000%	3.000%	101.397	AA1
2025	180,000	5.000	2.730	103.771	AB9
2026	190,000	5.000	2.600	106.245	AC7
2027	200,000	5.000	2.470	108.921	AD5
2028	210,000	5.000	2.440	111.330	AE3
2029	220,000	5.000	2.420	113.687	AF0
2030*	230,000	5.000	2.420	115.895	AG8
2031*	245,000	5.000	2.420	118.051	AH6
2032*	255,000	5.000	2.430	120.069	AJ2
2033*(C)	270,000	5.000	2.440	121.006	AK9
2034*(C)	280,000	5.000	2.500	120.456	AL7
2035*(C)	295,000	5.000	2.610	119.457	AM5
2036*(C)	310,000	5.000	2.680	118.826	AN3
2037*(C)	330,000	5.000	2.810	117.665	AP8
2038*(C)	345,000	5.000	2.840	117.398	AQ6
2039*(C)	360,000	5.000	2.950	116.429	AR4
2040*(C)	380,000	5.000	3.100	115.122	AS2
2041*(C)	400,000	5.000	3.190	114.346	AT0
2042*(C)	420,000	5.000	3.270	113.662	AU7
2043*(C)	445,000	5.000	3.330	113.152	AV5

\$3,075,000 4.00% Term Bonds due December 1, 2049* - Price: 99.200, Yield 4.050% CUSIP suffix[†] AW3

\$2,500,000 4.00% Term Bonds due December 1, 2053* - Price: 98.286, Yield 4.100% CUSIP suffix[†] AX1

^(C) Priced to the optional redemption date of June 1, 2033, at par.

* Insured Bonds.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is owned by FactSet Research Systems Inc. ("FactSet"). FactSet will manage the CUSIP system on behalf of the American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the District or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the District nor the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District or the Water System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to its accuracy or completeness.

Document References and Summaries. All references to and summaries of the Indenture of Trust or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Underwriter. 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.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Internet Site. The District maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

Bond Insurance. Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the 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 G - Specimen Municipal Bond Insurance Policy.”

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**FALLBROOK PUBLIC UTILITY DISTRICT
(SAN DIEGO COUNTY, CALIFORNIA)**

Board of Directors

Jennifer DeMeo, President and Director of Subdistrict No. 3
Don McDougal, Vice President and Director of Subdistrict No. 4
Dave Baxter, Director of Subdistrict No. 1
Ken Endter, President and Director of Subdistrict No. 2
Charley Wolk, Director of Subdistrict No. 5

District Staff

Jack Bebee, General Manager
David Shank, Assistant General Manager & Chief Financial Officer
Lauren Eckert, Secretary of the Board of Directors
Paula C. P. de Sousa, Best Best & Krieger LLP, General Counsel

SPECIAL SERVICES

Municipal Advisor

Wulff, Hansen & Co.
San Rafael, California

Bond Counsel and Disclosure Counsel

Best Best & Krieger LLP
Riverside, California

Trustee

U.S. Bank Trust Company, National Association
Los Angeles, California

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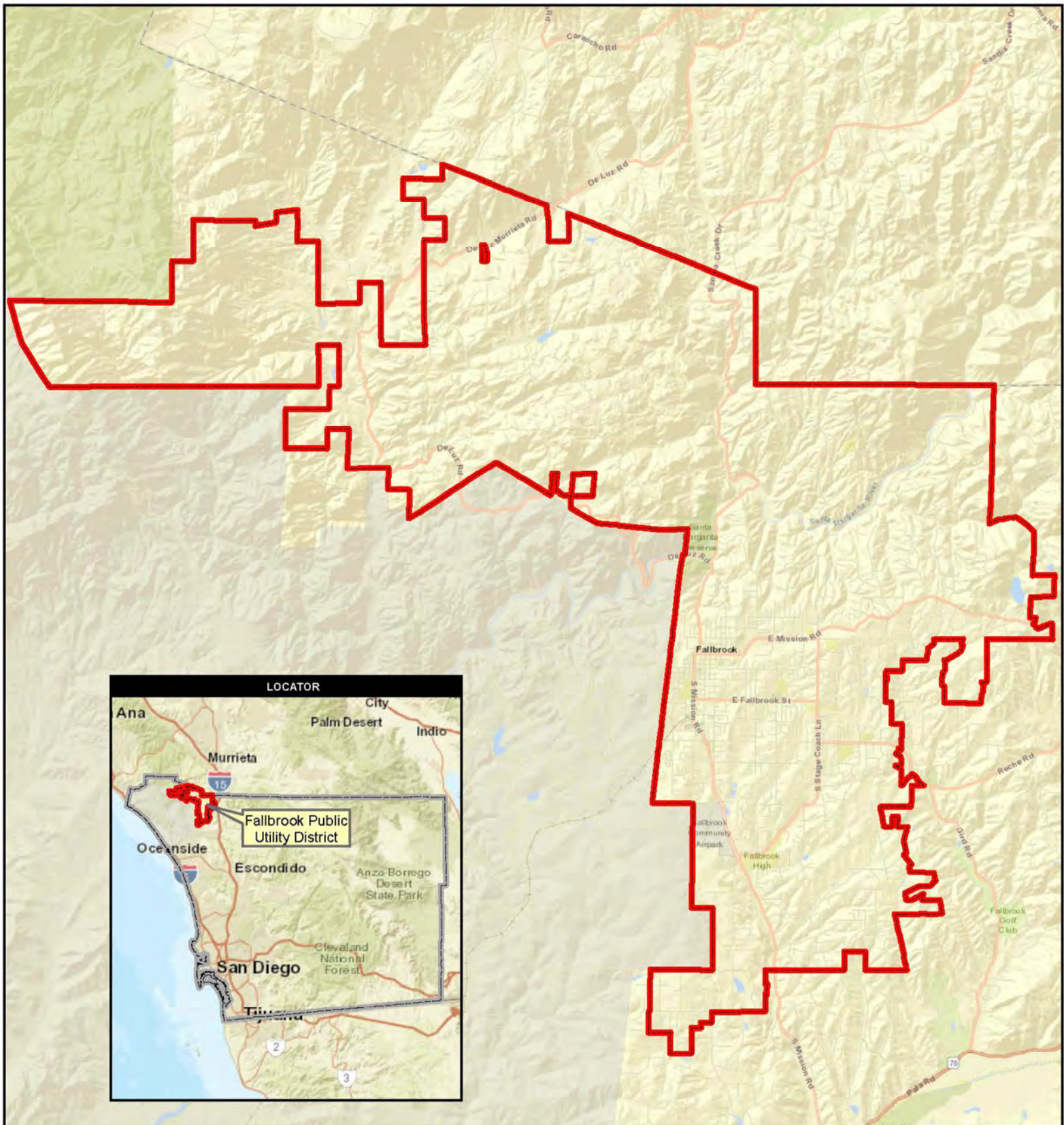
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DISCLAIMER: By accepting this map, you agree that the Fallbrook Public Utility District assumes no liability or responsibility of any kind arising from use of this map. This map, its Data, and any calculations associated with this map is provided without warranty of any kind.

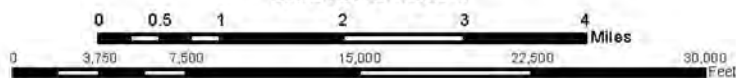
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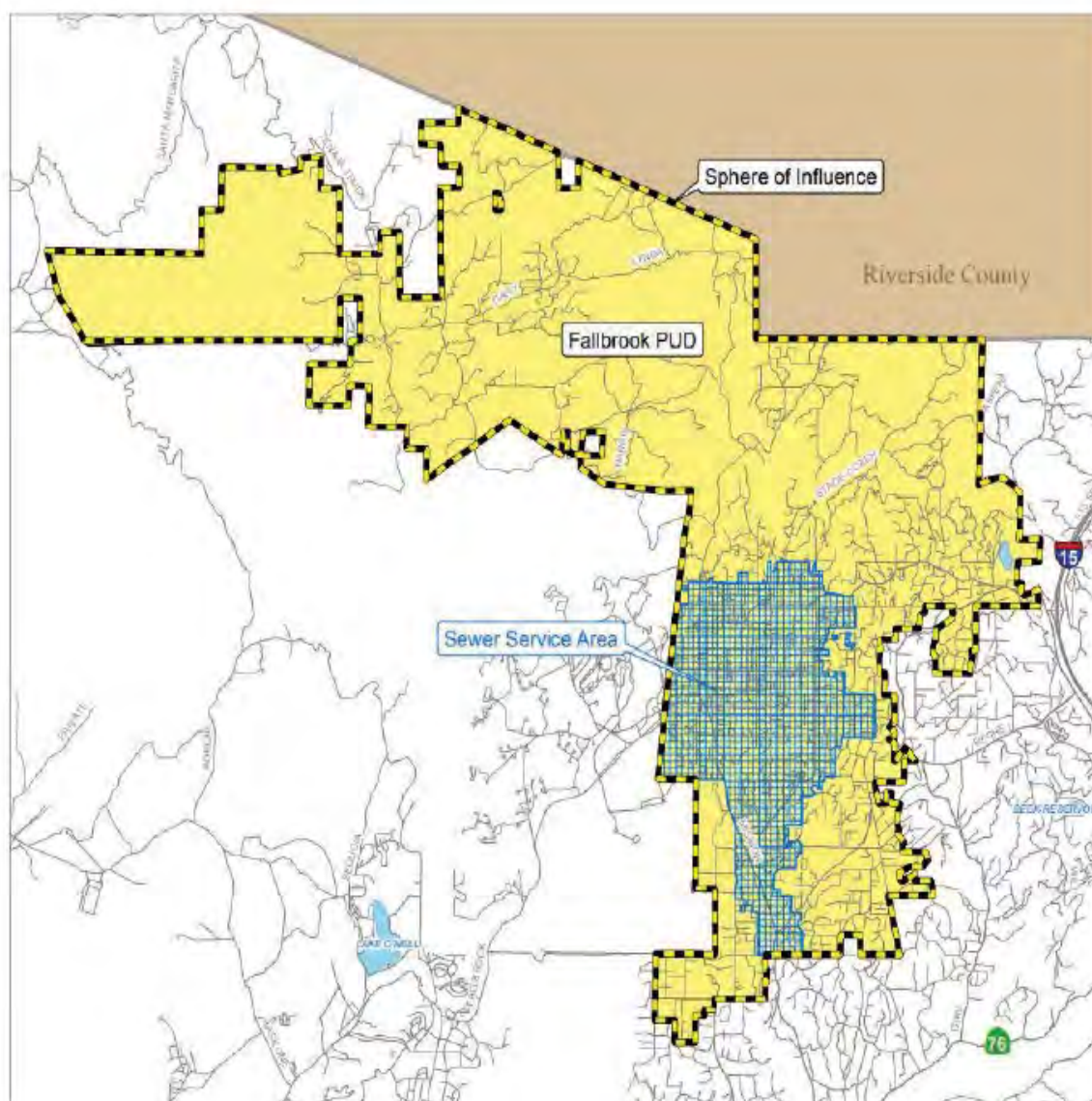
FALLBROOK PUBLIC UTILITY DISTRICT
SERVICE AREA
COUNTY OF SAN DIEGO BOUNDARY



FALLBROOK PUBLIC UTILITY DISTRICT SERVICE AREA



Source: ESRI, FPUD Projection: California State Plane NAD 83, Feet, Zone 6, Epoch 1991.35
Map Created by Todd Jester (4-17-18): F:\District Budgets\Budget 18-19\GIS\SERVICE_AREA.PDF



OFFICIAL STATEMENT
\$11,205,000
FALLBROOK PUBLIC UTILITY DISTRICT
2024 Water Revenue Bonds

INTRODUCTION

General

This Official Statement, including the cover page and appendices hereto, sets forth certain information in connection with the sale by the Fallbrook Public Utility District (the “District”) of its 2024 Water Revenue Bonds (“Bonds”). This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Authority for Issuance and Application of Proceeds

The Bonds are being issued under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”) and an Indenture of Trust, dated as of March 1, 2024 (the “Indenture”), between the District and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”). The Bonds are being issued to (i) finance capital improvements of the District’s Water System (defined herein) (ii) purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Insured Bonds (as defined below) and (iii) pay the costs of issuing the Bonds. See “PLAN OF FINANCE.”

The District

The District provides the following services through three separate utility enterprises: (i) potable water service through its Water System, (ii) wastewater service through its Wastewater System, and (iii) recycled water service through its Recycled Water System.

The District was originally formed on June 5, 1922 to provide potable water to customers in the unincorporated community of Fallbrook, which is located in San Diego County (the “County”) approximately 55 miles north of the City of San Diego and 7 miles northeast of the Marine Corps Base Camp Pendleton. Over time, annexations have expanded the District’s potable water service area from approximately 500 acres to 28,000 acres (44 square miles) at present.

The District’s water system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection system, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and the Santa Margarita River Conjunctive Use Water Treatment Plant. District staff operate the Water System, and conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has three active connections to imported water via Metropolitan Water District of Southern California-owned pipelines. A fourth connection to a San Diego County Water Authority (“SDCWA”) pipeline is in the process of being permanently decommissioned. See “THE WATER SYSTEM.”

For additional information regarding the District, the unincorporated area of Fallbrook and the County, see “THE DISTRICT” and “APPENDIX A – General Information about Fallbrook and San Diego County.”

The Bonds

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on June 1 and December 1, commencing December 1, 2024 (each, an “Interest Payment Date”), and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the Bonds. See “THE BONDS.”

The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS – Redemption.”

Security for the Bonds and Parity Debt

Pursuant to the Indenture, the Bonds are secured by and payable from the Net Revenues of the Water System. The District has outstanding debt that is payable from the Net Revenues of the Water System on a parity basis with the Bonds and the District may enter into additional Parity Debt obligations in the future, subject to the conditions set forth in the Indenture.

No Reserve Fund

The District will not fund a debt service reserve fund for the Bonds.

Bond Insurance

The scheduled payment of principal of and interest on the Bonds maturing on December 1st in the years 2030 through 2053, inclusive, (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. (“AGM”).

Special Obligations

The Bonds are special obligations of the District, secured by and payable from the Net Revenues of the Water System, and from amounts on deposit in certain funds and accounts established under the Indenture. The Bonds are not a debt, liability or obligation of the State or any of its political subdivisions other than the District, as described herein.

Risk Factors

Investment in the Bonds is not suitable for all investors. Investors are directed to the heading “RISK FACTORS” for a non-exclusive list of certain risks that may materially adversely impact the District and the Bonds.

Further Information

The summaries and references of the Indenture and other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to the Indenture and each document, statute, report or instrument. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” for a summary of certain terms of the Indenture not summarized in the main body of this Official Statement.

THE BONDS

General

The Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable on each Interest Payment Date and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Bond may have more than one maturity date. The Bonds will be issued only as one fully registered Bond for each maturity, in the name of Cede & Co., as nominee for DTC, as registered owner of all Bonds. See APPENDIX D – “BOOK ENTRY SYSTEM.” Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a “Record Date”), in which event it will bear interest from such Interest Payment Date,
- (b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of original delivery of the Bonds, or
- (c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the Bonds (including the final interest payment upon maturity or redemption) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner’s address as it appears on the Registration Books at the close of business on the preceding Record Date; provided, that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds will be paid on the succeeding Interest Payment Date to such account in the United States as specified in such written request.

Redemption

Optional Redemption. Bonds maturing on or after December 1, 2033, are subject to redemption in whole, or in part among maturities on such basis as the District may designate and by lot within a maturity, at the option of the District, on any date on or after June 1, 2033, from any available source of funds, at a redemption price of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Outstanding Bonds maturing on December 1, 2049 and December 1, 2053 are subject to mandatory sinking fund redemption, in part, on December 1, 2044, and December 1, 2050 respectively, and on each December 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

Bonds Maturing on December 1, 2049

Redemption Date (December 1)	Sinking Payment
2044	\$465,000
2045	480,000
2046	500,000
2047	520,000
2048	545,000
2049 (maturity)	565,000

Bonds Maturing on December 1, 2053

Redemption Date (December 1)	Sinking Payment
2050	\$590,000
2051	610,000
2052	635,000
2053 (maturity)	665,000

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds will be given, at the expense of the District, by the Trustee, by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Insurer and the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

All notices of redemption will be dated and will state: (i) the redemption date, (ii) the redemption price of the Bonds being redeemed (the “Redemption Price”), (iii) if fewer than all Outstanding Bonds are to be redeemed, including (A) the CUSIP numbers of all Bonds being redeemed; (B) the stated interest rate with respect to each Bond being redeemed; (C) the maturity date of each Bond being redeemed; and (D) any other descriptive information needed to identify accurately the Bonds being redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and (v) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

Rescission of Notice of Redemption. The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee will mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent.

Consequences of Notice. Notice of redemption having been given as required by the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price, and from and after such date (unless the District defaults in the payment of the Redemption Price) such Bonds or portions of Bonds will cease to have interest accrue thereon. Upon surrender of Bonds for redemption in accordance with a redemption notice, the Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture. Upon

surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee will determine, by lot, the numbers of the Bonds to be redeemed, and will notify the District of its determination.

Cost of Issuance Fund

The Indenture establishes a separate fund to be known as the “Costs of Issuance Fund”, to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the District. Each such Request of the District shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. One hundred and eighty (180) days after the Closing Date, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

Project Fund

The Indenture establishes a separate fund to be known as the “Project Fund”, to be held by the Trustee in trust for the District. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project costs (or to reimburse the District, for payment of Project costs) upon receipt by the Trustee of a written requisition of an Authorized Representative. Interest earnings on the investment of funds on deposit in the Project Fund shall be retained therein. Upon the filing with the Trustee of a written certificate of an Authorized Representative stating that the Project has been completed or that all written requisitions intended to be filed have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Principal Fund.

PLAN OF FINANCE

General

Bond proceeds will be used to finance improvements for the Water System and pay the costs of issuing the Bonds. Such improvements include but are not limited to repair and replacement of water pipelines throughout the District. Additionally, capital improvements listed in Table 4 hereof may be financed in part with the proceeds of the Bonds.

Estimated Sources and Uses of Funds

The following sets forth the estimated sources and uses of funds related to the Bonds.

Sources of Funds

Principal Amount of Bonds	\$11,205,000.00
Net Original Issue Premium	<u>793,785.30</u>
TOTAL SOURCES	\$11,998,785.30

Uses of Funds

Costs of Issuance ⁽¹⁾	\$ 224,747.57
Project Fund	<u>11,774,037.73</u>
TOTAL USES	\$11,998,785.30

⁽¹⁾ Includes fees and expenses of bond counsel, disclosure counsel, municipal advisor, underwriter's discount, bond insurance premium, rate consultant, trustee, printer and various other costs of issuance.

Debt Service Schedule

The following table shows, for each Fiscal Year of the District ending June 30, the principal of and interest that is payable on the Bonds, assuming no optional or extraordinary redemptions. See “– General,” above.

Fiscal Year Ending (June 30)	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 65,000	\$ 610,781.94	\$ 675,781.94
2026	180,000	496,750.00	676,750.00
2027	190,000	487,500.00	677,500.00
2028	200,000	477,750.00	677,750.00
2029	210,000	467,500.00	677,500.00
2030	220,000	456,750.00	676,750.00
2031	230,000	445,500.00	675,500.00
2032	245,000	433,625.00	678,625.00
2033	255,000	421,125.00	676,125.00
2034	270,000	408,000.00	678,000.00
2035	280,000	394,250.00	674,250.00
2036	295,000	379,875.00	674,875.00
2037	310,000	364,750.00	674,750.00
2038	330,000	348,750.00	678,750.00
2039	345,000	331,875.00	676,875.00
2040	360,000	314,250.00	674,250.00
2041	380,000	295,750.00	675,750.00
2042	400,000	276,250.00	676,250.00
2043	420,000	255,750.00	675,750.00
2044	445,000	234,125.00	679,125.00
2045	465,000	213,700.00	678,700.00
2046	480,000	194,800.00	674,800.00
2047	500,000	175,200.00	675,200.00
2048	520,000	154,800.00	674,800.00
2049	545,000	133,500.00	678,500.00
2050	565,000	111,300.00	676,300.00
2051	590,000	88,200.00	678,200.00
2052	610,000	64,200.00	674,200.00
2053	635,000	39,300.00	674,300.00
2054	<u>665,000</u>	<u>13,300.00</u>	<u>678,300.00</u>
Total	\$11,205,000	\$9,089,206.94	\$20,294,206.94

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Net Revenues

The Bonds and any Parity Debt are secured by a first pledge and lien on Net Revenues. “Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund held by the Trustee under the Indenture, including all amounts derived from the investment of such moneys. So long as any of the Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose, except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

“Gross Revenues” means: (1) all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or

otherwise arising from the Water System, including but not limited to (a) connection charges, (b) rebates or incentives paid to the District as a result of installed renewable energy generation projects or energy efficiency measures that benefit the operation of the Water System, (c) amounts transferred from the Rate Stabilization Fund, and (d) investment earnings on amounts held in the Water Fund or in any other fund established with respect to the Water System; and (2) Tax Revenues. Gross Revenues does not include (i) refundable deposits made to establish credit, or (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System.

“Tax Revenues” means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the County Tax Collector to the District that are allocable to the Water Fund of the District.

“Water System” means all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the production, transmission, distribution and sale of water and all additions, extensions, expansions, improvements and betterments thereto, and equipping thereof; provided, however, that to the extent the District is not the sole owner of an asset or property, only the District’s ownership interest in such asset or property shall be considered to be part of the Water System.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of treating water, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Costs does not include (i) Debt Service payable on Parity Debt incurred by the District with respect to the Water System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Debt Service” means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

- (a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;

- (b) the principal and interest amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and

- (c) as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greatest of (a) the actual interest rate on such Bonds or Parity Debt on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding), (b) if the Bonds or Parity Debt have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation, and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published) plus 50 basis points, or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that when measuring actual debt service coverage for any prior period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during such prior period.

Special Obligation

The Bonds and any Parity Debt are special obligations of the District, secured by and payable from Net Revenues. The Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District, as described herein.

No Reserve Fund

The District will not fund a debt service reserve fund for the Bonds.

Water Fund; Flow of Funds under Indenture

General. Promptly upon receipt, the District will deposit all Gross Revenues of the Water System into the Water Fund, and will apply all such amounts solely as set forth in the Indenture and as set forth in any other agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Debt (each a “Parity Debt Document”). In addition to transfers which are required to be made for the repayment of any Parity Debt, the District will withdraw amounts on deposit in the Water Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

Operation and Maintenance Costs. The District will apply amounts on deposit in the Water Fund to pay all Operation and Maintenance Costs when due.

Debt Service Fund. At least 5 days prior to each Interest Payment Date, the District shall transfer Net Revenues to the Trustee for the purpose of paying the Bonds and all Parity Debt payable by the Trustee. Not later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Debt Service Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Debt Service Fund), the following amounts in the following order of priority, the requirements of each such account at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

Interest Account. The Trustee shall deposit in the Interest Account an amount 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 Bonds and Parity Debt payable by the Trustee then Outstanding.

Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds and all Parity Debt payable by the Trustee coming due and payable on the Interest Payment Date on which such principal becomes due.

Sinking Account. The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

Other Lawful Uses. So long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the Water Fund for any one or more of the following purposes: (A) the payment of any subordinate obligations or any unsecured obligations; (B) the acquisition and construction of extensions and improvements to the Water System; (C) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Water System; or (D) any other lawful purpose of the District.

Application of Accounts

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

Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing Bonds (in lieu of redemption) pursuant to the Indenture.

Rate Stabilization Fund

The District has established a “Rate Stabilization Fund” for the purpose of stabilizing the rates and charges imposed by the District with respect to the Water System. See “FINANCIAL MATTERS OF THE DISTRICT-Financial Policies.” The Rate Stabilization Fund is currently unfunded.

From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secure the Bonds and any Parity Debt, as the District may determine. The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Water System. The Rate Stabilization Fund is currently unfunded.

Rate Covenants; Collection of Rates and Charges

The District covenants in the Indenture to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such principal and interest is payable from proceeds of Parity Debt deposited for such purpose; and
- (c) All payments required to meet any other Parity Debt of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (i) any transfers from the Rate Stabilization Fund into the Water Fund in such Fiscal Year are included in the calculation of Net Revenues, and (ii) any transfers from the Water Fund into the Rate Stabilization Fund in such

Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the District during that Fiscal Year.

Insurance; Net Proceeds

The District will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. All amounts collected from insurance against accident to or destruction of any portion of the Water System constitute Gross Revenues and must be used to repair or rebuild such damaged or destroyed portion of the Water System, and to the extent not so applied, will be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with the Indenture and the related Parity Debt Documents. The District will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds and outstanding Parity Debt. Any insurance required by the Indenture may be maintained by the District in the form of self-insurance through a joint powers agreement or otherwise.

No Senior Obligations

The District may not issue or incur any bonds, notes or other obligations having any priority over the Bonds in the payment of principal or interest out of the Net Revenues.

Parity Debt

Existing Parity Debt. The District's outstanding Parity Debt includes two State Revolving Fund loans, as follows:

- On June 21, 2010 the District entered into a loan agreement (the "2010 SRF Loan") with the State of California Department of Public Health whereby the District borrowed \$6,160,437 of which \$2,521,186 remains outstanding, as of March 1, 2024. The 2010 SRF Loan carries an interest rate of 2.57% and matures on January 1, 2031. Interest and principal on the 2010 SRF Loan is payable semi-annually on July 1 and January 1.
- The District entered into a loan agreement (the "2018 SRF Loan"), which was approved in 2018 and dated August 28, 2019, with the California State Water Resources Control Board whereby the District borrowed \$63,916,944 of which \$62,316,571 remains outstanding, as of March 1, 2024. The 2018 SRF Loan carries an interest rate of 1.90% and matures on March 1, 2053. Interest and principal on the 2018 SRF Loan is payable annually on March 1.

The scheduled payment of interest and principal on the 2010 SRF Loan and 2018 SRF Loan through final maturity is as follows:

Fiscal Year Ending 6/30	2010 SRF Loan			2018 SRF Loan			Total		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 333,166	\$ 62,685	\$ 395,851	\$ 1,630,780	\$ 1,184,015	\$ 2,814,795	\$ 1,963,946	\$ 1,246,699	\$ 3,210,646
2026	341,786	54,065	395,851	1,661,765	1,153,030	2,814,795	2,003,551	1,207,095	3,210,646
2027	350,628	45,222	395,851	1,693,339	1,121,456	2,814,795	2,043,967	1,166,679	3,210,646
2028	359,700	36,151	395,851	1,725,512	1,089,283	2,814,795	2,085,212	1,125,434	3,210,646
2029	369,006	26,844	395,851	1,758,297	1,056,498	2,814,795	2,127,303	1,083,343	3,210,646
2030	378,553	17,297	395,851	1,791,704	1,023,091	2,814,795	2,170,258	1,040,388	3,210,646
2031	388,347	7,503	395,851	1,825,747	989,048	2,814,795	2,214,094	996,552	3,210,646
2032	-	-	-	1,860,436	954,359	2,814,795	1,860,436	954,359	2,814,795
2033	-	-	-	1,895,784	919,011	2,814,795	1,895,784	919,011	2,814,795
2034	-	-	-	1,931,804	882,991	2,814,795	1,931,804	882,991	2,814,795
2035	-	-	-	1,968,509	846,287	2,814,795	1,968,509	846,287	2,814,795
2036	-	-	-	2,005,910	808,885	2,814,795	2,005,910	808,885	2,814,795
2037	-	-	-	2,044,022	770,773	2,814,795	2,044,022	770,773	2,814,795
2038	-	-	-	2,082,859	731,936	2,814,795	2,082,859	731,936	2,814,795
2039	-	-	-	2,122,433	692,362	2,814,795	2,122,433	692,362	2,814,795
2040	-	-	-	2,162,759	652,036	2,814,795	2,162,759	652,036	2,814,795
2041	-	-	-	2,203,852	610,943	2,814,795	2,203,852	610,943	2,814,795
2042	-	-	-	2,245,725	569,070	2,814,795	2,245,725	569,070	2,814,795
2043	-	-	-	2,288,394	526,401	2,814,795	2,288,394	526,401	2,814,795
2044	-	-	-	2,331,873	482,922	2,814,795	2,331,873	482,922	2,814,795
2045	-	-	-	2,376,179	438,616	2,814,795	2,376,179	438,616	2,814,795
2046	-	-	-	2,421,326	393,469	2,814,795	2,421,326	393,469	2,814,795
2047	-	-	-	2,467,332	347,464	2,814,795	2,467,332	347,464	2,814,795
2048	-	-	-	2,514,211	300,584	2,814,795	2,514,211	300,584	2,814,795
2049	-	-	-	2,561,981	252,814	2,814,795	2,561,981	252,814	2,814,795
2050	-	-	-	2,610,658	204,137	2,814,795	2,610,658	204,137	2,814,795
2051	-	-	-	2,660,261	154,534	2,814,795	2,660,261	154,534	2,814,795
2052	-	-	-	2,710,806	103,989	2,814,795	2,710,806	103,989	2,814,795
2053	-	-	-	2,762,311	52,484	2,814,795	2,762,311	52,484	2,814,795
	<u>\$2,521,186</u>	<u>\$249,767</u>	<u>\$2,770,954</u>	<u>\$62,316,571</u>	<u>\$19,312,489</u>	<u>\$81,629,059</u>	<u>\$64,837,757</u>	<u>\$19,562,256</u>	<u>\$84,400,013</u>

Parity Debt. The District may issue bonds, notes or other obligations (“Parity Debt”) payable from Net Revenues on a parity with the Bonds provided that certain conditions are satisfied, including the following:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all grace periods have passed, would constitute an Event of Default) has occurred and is continuing.

(b) The amount of Net Revenues, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District any Additional Revenues, are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued;

(c) The total amount of outstanding and proposed variable-rate debt of the District may not exceed 12% of the total principal amount of all outstanding and proposed debt that is secured by Net Revenues of the District; and

(d) The District shall deliver to the Trustee a Certificate of the District certifying, that the conditions precedent to the issuance of such Parity Debt set forth in the Indenture have been satisfied.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Gross Revenues does not include connection fees and charges, transfers from the Rate Stabilization Fund (if any), or interest income received by the Water Fund during the period for which the calculation of Net Revenues are made.

“Additional Revenues” is defined in the Indenture to mean, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be made from the proceeds of such Parity Debt in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Financial Consultant.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District under paragraph (b) above, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

Subordinate Obligations

Nothing in the Indenture limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the “Policy”) for the Insured Bonds. The Policy guarantees the scheduled

payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as APPENDIX G – Specimen Municipal Bond Insurance Policy.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and 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 subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and related entities. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. 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 October 20, 2023, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 13, 2023, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On March 18, 2022, Moody’s announced it had upgraded AGM’s insurance financial strength rating to “A1” (stable outlook) from “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

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, 2022.

Capitalization of AGM at September 30, 2023:

- The policyholders’ surplus of AGM was approximately \$2,569 million.
- The contingency reserve of AGM was approximately \$908 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,048 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiary Assured Guaranty UK Limited (“AGUK”) and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA (“AGE”).

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and net deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

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, 2022 (filed by AGL with the SEC on March 1, 2023);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 (filed by AGL with the SEC on May 10, 2023);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023 (filed by AGL with the SEC on August 9, 2023); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (filed by AGL with the SEC on November 8, 2023).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the 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.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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 makes no representation regarding the Bonds or the advisability of investing in the 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

Overview of the District

General. The District is a public utility district organized and existing under the “Public Utility District Act,” being Section 15501 et seq. of the Public Utilities Code of the State of California. Operating through three separate utility enterprises, the District provides the following services within the Fallbrook area: (i) potable water service through its Water System, (ii) wastewater service through its Wastewater System, and (iii) recycled water service through its Recycled Water System.

Fallbrook is a census-designated-place in unincorporated San Diego County with an estimated 2023 population of approximately 33,710 residents. The District is located in the north-east region of San Diego County (the second-most populous county in the State and the fifth-most populous in the United States) approximately 55 miles north of the City of San Diego and 7 miles northeast of U.S Marine Corps Base Camp Pendleton. Historically, the Fallbrook area economy has been centered around the farming of avocados, citrus, strawberries, olives, grapes and cut flowers.

Camp Pendleton. Marine Corps Base Camp Pendleton is the Marine Corps’ largest West Coast expeditionary training facility encompassing more than 125,000 acres including more than 2,600 buildings and 500 miles of road. Camp Pendleton is one of the Department of Defense’s busiest installations and offers a broad spectrum of training facilities for many active and reserve Marine, Army and Navy units, as well as national, state and local agencies. Located seven miles from Fallbrook, Camp Pendleton has been the largest employer in northern San Diego County for the past 60 years.

More than 38,000 military family members occupy base housing complexes. With a daytime population of 70,000 military and civilian personnel, the military personnel and their families rely on the surrounding communities for goods and services not available on the Base, and make the District’s service area a bedroom community for Camp Pendleton’s active military and civilian-service workers.

Additional demographic and economic information about Fallbrook and the County is located in APPENDIX A.

Local Water Supply. In February 2019, the District entered into a settlement agreement with Camp Pendleton, which agreement was approved in April 2019 by the United States District Court for the Southern District of California. Pursuant to the agreement, the District receives a permanent allocation of water from wells in operation on Camp Pendleton that draw water from an underground aquifer that is fed by the Santa Margarita River. The actual amount of water available to the District through its Santa Margarita River Water Rights will vary each year depending on regional weather patterns and on river hydrogeology. However, water from the District’s Santa Margarita River Water Rights is expected to supply approximately 3,100 acre feet or 30% of the District’s annual water needs on average, which will reduce the District’s dependence on more costly wholesale water purchases.

Santa Margarita Groundwater Treatment Plant. At a cost of approximately \$60 million, the District’s 7.8 MGD Santa Margarita Groundwater Treatment Plant was completed and placed into service in December 2021. The plant’s reverse osmosis treatment process provides the District with high quality treated water and its activated carbon filtration process enables the plant to achieve non-detectable levels of per- and polyfluoroalkyl substances (PFAS) in its treated water.

Wholesale Water Supplier. On December 29, 2023, the District detached from its wholesale water supplier, SDCWA, and was annexed by Eastern Municipal Water District (“EMWD”). Detachment is expected to result in significant wholesale water cost savings for the District and its ratepayers over time, while maintaining water supply reliability. Detachment is discussed more fully herein under the caption, “WATER SYSTEM – Water System Facilities – Detachment.”

Distribution System. The District’s water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection system, nine steel reservoirs, a 300-million-gallon treated water reservoir, five

pump stations and a groundwater treatment plant. District staff operate the system and conduct all system maintenance and repairs. The District recently completed an Advanced Metering Infrastructure system upgrade that enables real-time meter reading which provides customers with real-time water usage. The District imports water via three direct connections to pipelines that are owned by Metropolitan Water District of Southern California (“MWD”). The District’s detachment from SDCWA and annexation by EMWD is not expected to have any impact on the delivery of water through these connections.

Regulatory Matters. The U.S. Environmental Protection Agency (“EPA”), California State Water Resources Control Board, and California Regional Water Quality Control Board, San Diego Region regulate the Water System. The District is currently in compliance with all Federal and State regulatory requirements.

Board of Directors

The Board of Directors of the District consists of five directors, each of whom is elected to a four-year term representing one of five subdistricts within the District. The current Board Members, their respective sub-districts, and the expiration of each director’s current term are as follows:

<u>Board Members</u>	<u>Subdistrict</u>	<u>Expiration of Term</u>
Dave Baxter	Subdistrict No. 1	December 2024
Ken Endter	Subdistrict No. 2	December 2026
Jennifer DeMeo	Subdistrict No. 3	December 2024
Don McDougal	Subdistrict No. 4	December 2024
Charley Wolk	Subdistrict No. 5	December 2026

Jennifer DeMeo, President. Ms. DeMeo has served on the Board since 2016. She is a longtime Fallbrook resident and holds a bachelor’s degree in Religious Studies from Guilford College in North Carolina.

Don McDougal, Vice President. Mr. McDougal has served on the Board since 2004. A graduate of Fallbrook High, he has more than 40 years of private sector business experience. Mr. McDougal has a bachelor’s degree from California Polytechnic University in Agricultural Business Management.

Ken Endter, Director. Mr. Endter has served on the Board since 2018. He is retired from RADY Children’s Hospital where he worked as a diagnostic medical professional in the imaging department. Prior to that, he worked for Kaiser Permanente and as a sub-contractor for the Department of Defense. He has a bachelor’s degree from Seattle University in Diagnostic Ultrasound with a minor in Physics.

Dave Baxter, Vice President. Mr. Baxter has served on the Board since 2019. He is the senior director at Relevant Solutions, a company that provides business solutions through instrumentation and automation, rotating and thermal equipment purification and building solutions. He has a background in water and wastewater treatment working with municipalities, and he served in the Coast Guard for eight years. Mr. Baxter has two bachelor’s degrees from the University of Tennessee – in environmental engineering and chemical engineering.

Charley Wolk, Director. Mr. Wolk has served on the Board since 2014. Prior to that, he also served a 4-year term on the Board from 1990 to 1994. A Fallbrook resident since 1972, Mr. Wolk owns and operates the Bejoca Company, a local grove management services company. Mr. Wolk has a bachelor’s degree in Mechanical Engineering from Marquette University and a master’s degree in Management Engineering from George Washington University.

District Management

Jack Bebee, General Manager. Mr. Bebee has more than 20 years of experience planning, designing, operating and managing municipal water and wastewater facilities. Since joining the District in 2009, Mr. Bebee has served as chief engineer, assistant general manager and general manager. Under Mr. Bebee’s leadership, the District has enhanced many of its financial management policies and practices including its rate management, reserve policies, long-term capital facilities planning, pension and OPEB (defined below) funding, debt management and investment policies. Mr. Bebee has a Bachelor of Science degree in engineering from

Washington and Lee University, a Master of Science in civil engineering from University of Illinois, and a Master of Business Administration from California State University San Marcos, and holds a California Professional Civil Engineering License.

David Shank, Assistant General Manager & Chief Financial Officer. Mr. Shank oversees the District's financial accounting, internal controls, customer service, information technology and risk management departments. Prior to joining the District in 2017, Mr. Shank worked for the San Diego County Water Authority for 11 years, where he most recently served as Financial Planning Manager. He has a Bachelor of Arts degree in economics from Emory University, and Master's degrees in Resource & Agricultural Economics (University of California, Davis), Environmental Engineering (University of Illinois), and Public Administration (San Diego State University).

THE WATER SYSTEM

Overview

The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection system, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District has completed an Advanced Metering Infrastructure system upgrade that enables real-time meter reading and provides customers with real-time water use.

Water Connections

Table 1 below shows the number of water connections by category.

TABLE 1
Fallbrook Public Utility District Water Connections

As of June 30	Single-Family Residential	Multi-Family Residential	Commercial & Institutional	Agricultural	Other	Total
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251
2020	7,755	216	712	535	41	9,259
2021	7,757	218	711	543	41	9,270
2022	7,772	218	712	546	43	9,291
2023	7,787	217	712	551	43	9,310

Source: District.

Largest Water Customers

Table 2 below shows the ten largest Water System customers for the Fiscal Year ending in June 30, 2023, based on revenue.

TABLE 2
Fallbrook Public Utility District
Ten Largest Water Customers By Revenue During Fiscal Year Ending June 30, 2023

<u>No.</u>	<u>Customer</u>	<u>User Class⁽¹⁾</u>	<u>Fiscal Year 2023 Annual Revenue</u>	<u>% of Total Annual Revenue</u>
1.	Altman Nursery	C, CA	\$ 460,067	1.83%
2.	Fallbrook Union Elementary Sch. Dist.	G	270,200	1.07
3.	Hennell Grove	C, CB, LD	128,814	0.51
4.	Ranajit Ranch	AS	99,674	0.40
6.	Sunlet Nursery	AT	95,670	0.38
5.	Magdic Grove	AT	94,182	0.37
7.	Shady Grove HOA	C	93,725	0.37
8.	Valley View Mobile Lodge	M	92,623	0.37
9.	Pinecrest Apartments	C, M	82,526	0.33
10.	Ambercreek Association	I, M	76,129	0.30
	Total, Top 10 Customers		\$ 1,493,610	5.93%
	Total, All Other Customers		\$23,673,402	94.07%
	Total, All Customers		\$25,167,012	

⁽¹⁾ (C) = Commercial, (G) = Government, (I) Irrigation Only, (AS) = Agriculture SAWR, (CA) = Commercial Ag, (AT) = Agriculture Domestic, (CB) = Commercial Domestic, (M) = Multi-Unit.

Source: District

Water Supply

General. Historically, the District imported almost all of its potable water from SDCWA via service connections to facilities operated by MWD. Effective January 1, 2024, the District receives wholesale water from EMWD, as further discussed below under “ – Detachment.”

Now that the Santa Margarita Groundwater Treatment Plant is operational, approximately 3,100 acre feet or 30% of the District’s annual water supply is expected to be provided through its Santa Margarita River Water Rights. The actual amount of water available to the District through its Santa Margarita River Water Rights will vary each year depending on regional weather patterns and on river hydrogeology. The average cost to treat and deliver this local water supply is less than the current cost of purchasing wholesale water from EMWD.

District Detachment From SDCWA. On March 17, 2020, the District’s General Manager Jack Bebee submitted an application to the San Diego Local Agency Formation Commission (“LAFCO”) to detach from SDCWA in order to provide the District’s ratepayers with the most efficient and cost-effective water service. The matter of detachment was resolved as follows:

- On July 10, 2023, LAFCO approved Resolution No. 2023-11 authorizing the District to transfer wholesale water service responsibilities within its jurisdictional boundaries from SDCWA to EMWD.
- On August 31, 2023, the SDCWA filed a lawsuit (“Lawsuit”) challenging, among other things, the Detachment.
- On November 7, 2023, the District’s ratepayers approved Ballot Measure A by a vote of 5,591 (94.3%) to 338 (5.7%), authorizing the District to detach from SDCWA.

- On December 21, 2023 the District, SDCWA and San Diego LAFCO entered into a settlement agreement, whereby the District agreed to pay SDCWA \$8,506,750 as an “Exit Fee” and SDCWA agreed to drop all litigation with respect to the Detachment.
- On December 29, 2023, the District detached from SDCWA and was annexed by EMWD.

Under the Water Billing and Service Agreement dated January 8, 2024, by and between the District and EMWD (the “Service Agreement”), the District will not utilize any of EMWD’s infrastructure and will continue to receive its water from the existing MWD service connections. MWD owns and operates an extensive range of facilities including the Colorado River Aqueduct, 15 hydroelectric plants, nine reservoirs, 830 miles of large-scale pipes, and five water treatment plants. MWD also imports water from the Colorado River and Northern California to supplement local supplies. The District does not expect to incur any additional material costs in connection with the process of detaching from SDCWA and annexing to EMWD.

Water Production

Table 3 below shows the District’s historical annual water production. Fiscal Years showing decreased water production are the result of customers’ decreased water usage due to increased rainfall.

TABLE 3
Fallbrook Public Utility District
Water Production

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Annual Production</u> <u>(gallons)</u>	<u>Average Daily</u> <u>Production</u> <u>(gallons per day)</u>	<u>Percent</u> <u>Change</u>
2014	4,178,179,040	11,447,066	
2015	3,327,254,350	9,115,765	-20.4%
2016	3,235,951,180	8,865,620	-2.7
2017	3,114,930,490	8,534,056	-3.7
2018	3,287,934,350	9,008,039	5.6
2019	2,684,556,048	7,354,948	-18.4
2020	2,602,343,841	7,129,709	-3.1
2021	2,905,874,048	7,961,299	11.7
2022	2,686,152,719	7,359,323	-7.6
2023	2,169,744,054	5,944,504	-19.2

Source: District.

Capital Improvement Program

Each year the District develops a multi-year Capital Improvement Plan (“CIP”) for its water, recycled water and wastewater systems as part of its annual budget process. The table below presents the District’s anticipated capital improvement projects with respect to the Water System for Fiscal Years 2024-2028. The District cannot provide any assurance that any specific improvements will be completed or completed on the anticipated schedule, or that the expenditures shown below will made. The District does not expect to incur any additional bonded indebtedness to finance these capital improvements and expects to pay for such improvements from available revenues of the Water System.

TABLE 4
Fallbrook Public Utility District
5-Year Water System Capital Improvement Program

Project Description	Fiscal Year 2023-24	Fiscal Year 2024-25	Fiscal Year 2025-26	Fiscal Year 2026-27	Fiscal Year 2027-28	Project Total
Pipeline & Valve Replacement (District)	\$ 680,000	\$ 598,500	\$ 622,440	\$ 647,338	\$ 673,231	\$ 3,221,509
Pipeline & Valve Replacement (Contractors)	5,760,000	4,928,344	3,739,067	4,060,056	4,771,673	23,259,140
DeLuz ID Projects	100,000	105,000	109,200	113,568	118,111	545,879
Pump Stations	100,000	1,123,500	54,600	56,784	59,055	1,393,939
Meter Replacement	20,000	21,000	21,840	22,714	23,622	109,176
Pressure Reducing Station Rehab.	40,000	21,000	-	-	-	61,000
Red Mtn. Reservoir Facility Improvements	24,000	236,250	54,600	56,784	118,111	489,745
Steel Reservoir Improvements	162,000	577,500	873,600	738,192	767,720	3,119,012
Santa Margarita Groundwater Treatment Plant	200,000	210,000	218,400	227,136	236,221	1,091,757
SCADA and Security	150,000	136,500	141,960	147,638	177,166	753,264
Vehicles and Heavy Equipment	143,500	267,893	521,430	346,382	481,301	1,760,506
Total Water Capital Expenditures:	\$7,379,500	\$8,225,487	\$6,357,137	\$6,416,592	\$7,426,211	\$35,804,927

Source: District.

FINANCIAL MATTERS OF THE DISTRICT

Basis of Accounting; Budgets

The District’s accounting system and practices are based upon Generally Accepted Accounting Principles (“GAAP”) and are maintained on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. The District’s budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

The District operates as an enterprise fund with a set of self-balancing accounts that record the financial position of each of the District’s services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

Each year, the District develops and adopts a budget for the upcoming Fiscal Year. The budget process begins in January with a budget message from the General Manager, which establishes the District’s overall spending levels and priorities for the next fiscal year and provides departmental managers with guidance on how to develop their budget requests.

Financial Policies

Fund Balance Policies. Article 6 of the District’s Administrative Code describes the Appropriated Fund Balances for the Water System, which includes a Working Capital Fund and a Santa Margarita Debt Payment Fund.

- The Working Capital Fund is established and maintained at a level of three months operating and maintenance expenses, including water purchases.

- The Santa Margarita Debt Payment Fund is established to prevent “spikes” and mid-year changes in rates because of net revenue shortfalls due to weather conditions, state or federal legislation or other future uncertainties. The target level is equal to 2-years of debt service payments on the Santa Margarita Conjunctive Use Project financing.

Investment Policy. The Investment Policy, which is set forth in Article 18 of the District’s Administrative Code, establishes permitted investments for the District in compliance with State law. The Board delegates its authority to manage the investments of the District to the Treasurer, under the supervision of the General Manager. The objectives of the investment policy are, in order of importance: (i) to safeguard principal, (ii) meet the District’s liquidity needs, (iii) achieve a return on investment within the parameters of prudent risk management.

Debt Management Policy. The Debt Management Policy, adopted by the Board in May 2017, complies with California Government Code section 8855(i). The policy sets forth the District’s goals for the approval and issuance of bonds, notes and other debt instruments and sets forth guidelines for the use of debt to finance of capital projects.

Capitalization Policy. The Capitalization Policy establishes the parameters for costs to be defined as operating or capital expenditure of the District.

Discontinuation of Residential Water Service Policy. The Discontinuation of Residential Water Service Policy enumerates the District’s administrative actions for the collection of delinquent residential accounts, including, notifications, fees, and discontinuation of service. The District may disconnect residential water service for customers who fail to make payments in accordance with the terms of this policy.

Long-Range Planning and Goals

Every five years the District develops a detailed financial plan that supports the financial sustainability of the District’s enterprises. The 2022 Water, Wastewater, and Recycled Water Rate Study is the most recent plan and was completed in December 2022. It provides guidance on rates and charges through 2027.

The District maintains over 370 miles of buried water and sewer pipe that must be maintained and replaced. The District also has pump stations, lift stations and treatment facilities that require significant expenses to replace and maintain. The District develops plans to reduce the overall cost of operating these facilities by completing proactive capital projects to replace and rehabilitate these assets rather than deferring replacement and maintenance costs. The annual Capital Improvement Budget is used to implement the District’s long-range capital goals. These goals are developed using the District’s Strategic Plan, Urban Water Management Plan, Asset Management Plan and Master Plans. These plans are utilized to develop the lowest lifecycle cost to meet water and wastewater needs and maintain system reliability for the District’s customers. Projects are selected based on weighing prioritized needs versus available capital funds. Individual project costs are estimated based on current construction cost information.

The District has identified the following long-range strategic goals: (1) to diversify its water supply by reducing its reliance on imported water, (2) to maintain the operational integrity of its aging infrastructure, (3) to improve operational efficiency, (4) to enhance customer service, and (5) to improve workforce training and development.

Water Rates and Charges

Historically, the District has engaged the services of an independent rate consultant to perform a rate study every five years, which was completed most recently in September 2017 and again in September 2022.

On September 21, 2022, the rate consultant Bartle Wells Associates presented its “Water, Wastewater and Recycled Water Rate Study” (the “Rate Study”) to the District’s Board of Directors, wherein Bartle Wells Associates recommended annual water, recycled water and wastewater rate increases over the five-year period from calendar 2023-2027, consistent with the District’s financial, operating and capital requirements. The rate

consultant also recommended certain changes to simplify the District's water rate structure and to more closely align its water rates and charges with the cost of service by customer class.

Subsequently, on November 16, 2022, the District held a public hearing on the proposed water, recycled water and wastewater rate increases, consistent with the requirements of California Proposition 218. At the conclusion of the public hearing, the District's Board of Directors adopted Resolution No. 5036 setting maximum rates and charges consistent with the recommendation in the Rate Study and adopting calendar year 2023 rates and charges for water, recycled water and wastewater services.

Among the recommendations included in the Rate Study were the following:

- Residential Water Rates: Maintain a lower volumetric rate for the first 5,000 gallons (5 Kgal) of residential water use in Tier 1, reflecting the lower cost to provide water supply for base indoor demands. Combine residential Tiers 2 & 3 into a single tier for all water use above the first 5,000 gallons to reflect current costs of service.
- Non-Residential Water Rates: Charge the same uniform volumetric rate to Commercial, Government, and Irrigation customer classes, which currently have extremely close but slightly different rates.
- Agricultural Water Rates: Maintain Agricultural volumetric water use rates that provide agricultural customers with a lower-cost water supply that comes with a reduced level of water supply reliability.
- Recover MWD's Readiness-to-Serve Charge via the District's volumetric water rates, instead of as a small, separate pass-through charge based on meter size, to align costs with sources of water supply to each customer class,
- Maintain the supplemental Pumping Charges to recover the incremental costs of electricity needed to provide water supply to higher-elevation service areas but eliminate the small supplemental \$0.10 per thousand gallons Pumping Capital Improvement Charge as the District's pumping facilities provide some benefit to all customers.
- Eliminate the reduced Standby Capital Improvement Charges levied on standby customers (accounts with suspended service) and instead have Standby customers pay the same Capital Improvement Charges as all other customers.
- Continue the historical practice of automatic annual adjustments to Capital Improvement Charges based on the annual change in the Engineering News-Record Construction Cost Index + 3% to account for a planned gradual increase in capital improvement funding.
- Develop a plan to address the rate and charge impacts of a potential detachment from SDCWA.

The Rate Study was completed prior to the District's detachment from SDCWA. Nonetheless, the maximum water rates recommended by the Rate Study and authorized pursuant to the Proposition 218 Hearing remain valid. The District has since updated its financial projections to incorporate the expected financial impact of Detachment, and on December 4, 2023 the Board adopted Resolution No. 5064, which approved water rates and charges for calendar year 2024 consistent with the updated financial projections.

Volumetric Monthly Water Charges. The District’s water use rate structure has evolved over time as cost of service principles and user demand patterns have changed. As shown in the table below, the District has used tiered rate structures and uniform rates over the last 10 years. Starting in calendar year 2018, the District chose a uniform rate for Non-Residential customers. In 2023, the District reduced the number of tiers for Domestic water users. The water use service charge is levied on each 1,000 gallons used by customers during the month. The monthly water use service charges for the majority of the District’s user classes are set forth in the following table.

TABLE 5
Fallbrook Public Utility District
Volumetric Monthly Water Charges
(Dollars Per Thousand Gallons)

Calendar Year	Domestic			Commercial		Government	Special	Commercial	
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2		Agricultural	Agricultural	
2014	4.03	4.64	5.11	4.03	4.64	4.64	3.14	4.06	n/a
2015	4.19	4.61	5.08	4.19	4.61	4.61	3.14	4.06	n/a
2016	4.38	4.82	5.31	4.38	4.82	4.82	3.18	4.28	n/a
2017	5.21	5.74	6.32	5.21	5.74	5.74	3.65	4.97	n/a
2018	5.62	5.71	6.95	5.79	n/a	5.70	4.17	4.83	n/a
2019	5.96	6.05	7.37	6.14	n/a	6.04	4.42	5.12	n/a
2020	6.44	6.53	7.96	6.63	n/a	6.52	4.77	5.53	n/a
2021	6.83	6.92	8.44	7.03	n/a	6.91	5.06	5.86	n/a
2022	7.17	7.27	8.86	7.38	n/a	7.26	5.31	6.15	n/a
2023	7.31	8.06	n/a	7.72	n/a	7.72	5.63	6.38	n/a
2024	7.31	8.06	n/a	7.72	n/a	7.72	n/a	n/a	5.63

Source: District.

Fixed Monthly Water Charge. Fixed monthly water charges are based on meter size regardless of user type. Fixed charges provide a stable revenue stream regardless of water sales. Table 6 below shows historical monthly fixed water charges.

TABLE 6
Fallbrook Public Utility District
Fixed Monthly Water Charges
(Dollars Per Month)

Calendar Year	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter	3" Meter	4" Meter	6" Meter
2014	36.63	47.66	68.02	99.54	162.38	258.19	461.43
2015	38.10	49.57	70.74	103.52	168.88	268.52	479.89
2016	39.24	51.06	72.86	106.63	173.95	276.58	494.29
2017	41.59	54.12	77.23	113.03	184.39	293.17	523.95
2018	44.10	67.33	123.36	195.01	380.73	589.67	1,170.06
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,240.26
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48
2021	53.52	81.70	152.12	236.65	462.01	715.55	1,419.85
2022	56.20	85.79	159.73	248.48	485.11	751.33	1,490.84
2023	60.60	96.51	185.46	292.64	578.82	900.36	1,793.16
2024	57.16	90.77	174.00	274.30	542.12	843.02	1,678.50

Source: District.

Fixed Monthly Water Capital Improvement Charge. The Water Capital Improvement Charge (“CIC”) was implemented to provide a stable source of funding for capital improvement projects. The CIC is adjusted annually based on the ENR (Engineering News Record) Construction Cost Index (CCI) plus 3%, not to exceed 10% per year. Table 7 below shows historical monthly capital improvement charges.

TABLE 7
Fallbrook Public Utility District
Fixed Monthly Capital Improvement Charge
(Dollars Per Month)

Calendar	3/4"	1"	1 1/2"	2"	3"	4"	6"	
<u>Year</u>	<u>Meter</u>	<u>Meter</u>	<u>Meter</u>	<u>Meter</u>	<u>Meter</u>	<u>Meter</u>	<u>Meter</u>	<u>Standby</u>
2014	8.00	11.00	16.00	25.00	42.00	66.00	120.00	4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	variable
2020	9.47	15.78	31.56	50.49	100.98	157.79	315.57	variable
2021	9.77	16.27	32.55	52.07	104.14	162.72	325.43	variable
2022	10.10	16.82	33.66	53.84	107.68	168.25	336.50	variable
2023	11.11	18.50	37.03	59.22	118.45	185.08	370.15	variable
2024	12.05	20.07	40.17	64.24	128.48	200.76	401.50	variable

Source: District.

Typical Single-Family Residential Monthly Water Bill

Table 8 below shows a typical monthly bill for single-family residential water customers during calendar year 2024 assuming a 3/4" connection based on 9,000 gallons monthly usage.

TABLE 8
Fallbrook Public Utility District
Typical Single-Family Residential Monthly Water Bill

Fixed Monthly Water Charge	\$ 57.16
Fixed Monthly Capital Improvement Charge (CIC)	12.05
 Volumetric Monthly Water Charge:	
First 5,000 gallons (\$7.31/kgal)	36.55
Next 4,000 gallons (\$8.06/kgal)	<u>32.24</u>
Total	\$138.00

Source: District.

Regional Water Rate Survey. Table 9 below shows a regional comparison of typical single-family residential monthly water bills assuming a ¾-inch water meter and 9,000 gallons of monthly water use.

TABLE 9
Fallbrook Public Utility District
Regional Water Rate Survey Calendar Year 2024

<u>Single Family Residence</u>	<u>Monthly Charge</u>
Rancho California Water District ⁽¹⁾	\$42.06 - \$77.45
Eastern Municipal Water District	63.70
Murrieta County Water District	91.59
Vallecitos Water District	99.31
South Coast Water District	116.75
Valley Center Municipal Water District	119.98
Rincon Del Diablo Water District	127.26
Fallbrook Public Utility District	138.00
Rainbow Municipal Water District	164.29

⁽¹⁾ Charges vary based on zone.
Source: Bartle Wells Associates.

Water Demand by Customer Type

Table 10 below shows the distribution of water sales by customer type in units of 1,000 gallons of water during the Fiscal Years ending June 30, 2021-2023.

TABLE 10
Fallbrook Public Utility District
Water Sales by Customer Type During the Fiscal Years Ending June 30, 2021-23

<u>Customer Type</u>	<u>Fiscal Year Ending June 30</u>					
	<u>2021</u>		<u>2022</u>		<u>2023</u>	
	<u>Water Sales</u>	<u>Share</u>	<u>Water Sales</u>	<u>Share</u>	<u>Water Sales</u>	<u>Share</u>
Residential	1,593,574	59.3%	1,502,857	60.8%	1,281,409	62.5%
Commercial	163,447	6.1	165,044	6.5	142,983	7.0
Government	40,438	1.5	43,925	1.8	37,408	1.8
Irrigation Only	9,222	0.3	8,505	0.3	7,071	0.3
Agricultural	<u>878,885</u>	<u>32.7</u>	<u>748,382</u>	<u>30.5</u>	<u>582,850</u>	<u>28.4</u>
Total	2,685,566	100.0%	2,468,712	100.0%	2,051,721	100.0%

Source: District.

Collection of Water Charges; Delinquencies

Billing and Collections. The District bills water, wastewater and recycled water customers (as applicable) on a monthly basis via a single bill.

Billing due dates fall on the 10th, 20th, and 30th of the month depending on meter location in the District. Bills become delinquent the day after the due date. Residential accounts not paid within 30 days of the due date are sent past due notices and the meters are subject to lock-up for non-payment. Non-Residential accounts not paid within 30 days of the due date are subject to meter lock-up. All water accounts accrue a \$30 Delinquent Processing Fee on the 31st day of delinquency.

Accounts not paid within 30 days after lock-up and accounts that have tampered with the meter to obtain water illegally are subject to removal of meters and permanent disconnection of water service. Standby charges will continue to accrue after the meter has been removed. If a meter has been locked for non-payment for a period

of 90 days, it may be placed on Standby Service by the District. Standby Service charges will accrue from that time until an application for service restoration has been received by the District.

Lien for Unpaid Bills. In addition to any other remedy provided in the District's Administrative Code or by law for the collection of any water and wastewater rates, charges or accounts, all rates or service charges provided for in District's Administrative Code shall be charged and become a charge against the property on which the water is furnished and against the owner thereof, and all charges for water so served to a property shall be and become a lien against the premises upon which the water is used or served. Standby accounts with a delinquent balance greater than \$500 as of April 1st of each year may be sent notification of intent to place delinquent and unpaid charges on the annual tax roll. The notification will be sent by May 1st and provides the customer 60 days to bring the account current. If the amount is not brought current by July 1st, the portion of the delinquency due as of the prior April 1st may be reported to the County Treasurer for inclusion on the annual taxes levied on the property. See - "Property Tax Delinquencies; Teeter Plan" below.

If for any reason or cause the sums of money owing for such water services are not paid as required by the terms and provisions of the District's Administrative Code, the District shall have the right to shut off such water, and in no case shall service of water be resumed on the same property until all such delinquencies and additional turn-on charges shall have been paid in full. Delinquent bills from former owners or tenants are the responsibility of the present owner.

Current Delinquencies. As of January 16, 2024, the current delinquency amount for water charges was \$212,915. As discussed above, delinquent amounts owed to the District are placed on the County's secured property roll for collection in the fiscal year following delinquency. See "-Teeter Plan," below.

Property Taxes; District Assessed Valuations

The Water Fund receives a share of the 1% general property tax that is levied and collected by the County within the District's boundaries.

As provided by Article XIII A of the California Constitution, county assessors' assessed values are to reflect market value as of the date the property was last assessed (or 1975, whichever is more recent), increased by a maximum of 2% per year. Properties may be reassessed by the county only upon a change of at least 51% ownership of existing property or upon new construction. The assessed values of parcels within the service area of the District thus reflect, for undeveloped parcels, the estimate of each county assessor (the "Assessor") of market value when acquired (or 1975, whichever is later), possibly increased by 2% per year, and for parcels on which construction has occurred since their date of acquisition, the Assessor's estimate of market value as of the time of construction, possibly increased by 2% per year. Because of the general limitation to 2% per year in increases in full cash value of properties that remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values.

Assessed Valuation of Taxable Property

Table 11 below shows the historical assessed valuation of taxable property within the District.

TABLE 11
Fallbrook Public Utility District
Assessed Valuation of Taxable Property

Fiscal Year	Local	State	Unsecured	Total	% Change
Ending June 30	Assessed	Assessed	Value		
2014	\$3,058,914,090	-	\$39,761,073	\$3,098,675,163	-
2015	3,234,556,718	-	40,480,476	3,275,037,194	5.7%
2016	3,390,367,447	-	37,440,559	3,427,808,006	4.7
2017	3,518,846,961	-	36,135,611	3,554,982,572	3.7
2018	3,709,470,372	-	36,271,614	3,745,741,986	5.4
2019	3,895,955,738	-	41,211,234	3,937,166,972	5.1
2020	4,078,331,287	-	41,515,562	4,119,846,849	4.6
2021	4,268,726,975	-	42,961,480	4,311,688,455	4.7
2022	4,399,211,909	-	37,054,002	4,436,265,911	2.9
2023	4,739,631,751	-	46,156,838	4,785,788,589	7.9

Source: District.

Property Tax Levy and Collections

Table 12 below shows historical property tax levies and collections.

TABLE 12
Fallbrook Public Utility District
Property Tax Levy and Collections

Fiscal Year	Current	Total
Ending June 30	Levy	Collections
2014	\$ 887,378	\$ 874,729
2015	933,206	921,440
2016	982,997	970,998
2017	1,022,747	1,009,595
2018	1,072,468	1,060,447
2019	1,122,771	1,108,272
2020	1,169,224	1,154,850
2021	1,221,575	1,205,539
2022	1,274,829	1,245,713
2023	1,388,768	1,359,100

Source: District.

Table 13 below shows the leading property taxpayers in the District.

TABLE 13
Fallbrook Public Utility District
Leading Property Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Fiscal Year 2023-24 Assessed Valuation</u>	<u>% of Total</u>
1.	Contour Propco 1735 S Mission LLC	Assisted Living Facility	\$ 32,244,737	0.65%
2.	Vista Fortuna LLC	Shopping Center	24,972,150	0.50
3.	Albertsons LLC	Supermarket	21,309,045	0.43
4.	Americare Health & Retirement LLC	Assisted Living Facility	18,750,782	0.38
5.	CPI/GV Crestview Estates Owner LLC	Mobile Home Park	15,010,827	0.30
6.	Axelgaard Manufacturing Co. Ltd.	Industrial	14,243,870	0.29
7.	Sheryl A. Hailey	Apartments	14,209,815	0.28
8.	Hampton Family Trust	Residential Properties	10,154,511	0.20
9.	Amber Creek Associates LLC	Apartments	9,923,720	0.20
10.	BRCC Investments LLC	Shopping Center	9,842,813	0.20
11.	Fallbrook Village Apartments LLC	Apartments	9,247,858	0.19
12.	Fallbrook Plaza LLC	Commercial	8,841,864	0.18
13.	Rec Properties LLC	Apartments	8,767,152	0.18
14.	Fallbrook Medical Arts LLC	Medical Offices	8,500,000	0.17
15.	Ark Properties LLC	Commercial	8,412,871	0.17
16.	Fallbrook Hills Apartments LLC	Apartments	8,383,834	0.17
17.	J & V Vozza No. 1 LLC	Apartments	8,044,960	0.16
18.	Felipe and Concepcion Jimenez	Apartments	8,024,406	0.16
19.	Sunset Views Apartments LLC	Apartments	7,964,800	0.16
20.	Old Vine Apartments LLC	Apartments	7,666,356	0.15
			\$ 254,516,371	5.10%
	Fiscal Year 2023-24 Total Local Secured Assessed Value		\$4,989,118,002	

Source: California Municipal Statistics.

Property Tax Delinquencies; Teeter Plan

General – Teeter Plan. The San Diego County Board of Supervisors has adopted the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds” (the “Teeter Plan”), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan provides for the allocation and distribution of property tax levies and collections and of tax sale proceeds. Under this method, the County remits 100% of the property taxes due to the District and retains any penalties or delinquencies collected to offset such payment. There can be no assurance that the County will not discontinue the Teeter Plan or remove the District, or the property tax payable to the District, from the Teeter Plan in the future.

The Teeter Plan covers not only the District’s portion of the 1% general secured property tax levy apportioned to the District each year, but also any delinquent water charges that the District has placed onto the secured property tax bill for collection.

Notwithstanding the historical delinquency rate shown, the District receives 100% of the property taxes levied for the District by the County pursuant to the Teeter Plan.

Combined Water Fund, Wastewater Fund and Recycled Water Fund Net Position

Table 14 below shows the combined water fund, wastewater fund and recycled water fund assets, liabilities and net position for the Fiscal Years ending June 30, 2018-2023.

Pursuant to the Continuing Disclosure Certificate executed by the District in connection with the issuance of the Bonds, the District will include in its Annual Comprehensive Financial Report a condensed statement of net position for the water activity segment.

TABLE 14
Fallbrook Public Utility District
Combined Water Fund, Wastewater Fund and Recycled Water Fund
Assets, Liabilities and Net Position Fiscal Years Ending June 30, 2018-2023⁽¹⁾

<u>Fiscal Year Ending June 30,</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Current Assets:						
Cash and Cash Equivalents	\$2,810,799	\$ 3,997,334	\$ 8,137,414	\$10,275,808	\$10,327,128	\$ 8,625,839
Investments	8,512,057	11,647,359	7,831,917	6,019,693	7,063,348	10,956,276
Receivables – Water Sales and Services	3,986,912	4,029,630	4,478,619	5,063,293	5,431,116	4,442,273
Accrued Interest Receivable	79,174	79,724	64,434	22,998	32,947	61,144
Property Taxes Receivable	9,183	12,370	10,160	58,525	42,166	45,418
Lease Receivable, Current Portion	-	-	-	-	262,820	219,700
Other Receivables	142,877	87,217	15,519,773	7,170,247	1,582,499	399,671
Inventory	1,985,473	1,839,995	1,845,755	1,861,925	1,460,165	1,405,107
Prepaid Expenses and Other Deposits	62,600	43,393	55,971	82,501	71,282	100,705
Restricted Assets:						
Cash Equivalents	1,388,748	6,693,439	7,496,954	9,494,809	8,812,335	9,816,557
Investments	<u>3,579,612</u>	<u>3,059,526</u>	<u>3,059,526</u>	<u>3,561,261</u>	<u>3,561,261</u>	<u>3,977,503</u>
Total Current Assets	\$22,557,435	\$31,489,987	\$48,500,523	\$43,611,060	\$38,647,067	\$40,050,193
Non-Current Assets						
Capital Assets:						
Capital Assets, Not Being Depreciated	\$ 14,391,257	\$14,145,536	\$42,118,554	\$75,045,121	\$19,935,557	\$18,329,634
Capital Assets Being Depreciated, Net	<u>100,256,339</u>	<u>99,454,241</u>	<u>98,993,697</u>	<u>96,601,755</u>	<u>157,672,281</u>	<u>156,180,190</u>
Total Capital Assets, Net	\$114,647,596	\$113,599,777	\$141,112,251	\$171,646,876	\$177,607,838	\$174,509,824
Lease Receivable, Net of Current Portion	-	-	-	-	<u>2,534,615</u>	<u>2,192,063</u>
Total Non-Current Assets	\$114,647,596	\$113,599,777	\$141,112,251	\$171,646,876	\$180,142,453	\$176,701,887
Deferred Outflows of Resources						
Deferred Amounts from Pension	\$ 3,819,796	\$ 3,197,216	\$ 3,004,079	\$ 2,744,892	\$ 2,740,102	\$ 7,217,689
Deferred Amounts from OPEB	<u>194,371</u>	<u>222,552</u>	<u>231,603</u>	<u>348,223</u>	<u>280,807</u>	<u>420,988</u>
Total Deferred Outflows of Resources	\$ 4,014,167	\$ 3,419,768	\$ 3,235,682	\$ 3,093,115	\$ 3,020,909	\$ 7,638,677
Current Liabilities:						
Accounts Payable	\$ 3,731,613	\$ 2,871,022	\$18,213,752	\$ 8,203,459	\$ 4,325,917	\$ 2,489,410
Accrued Wages	297,812	247,894	208,653	167,285	109,004	147,964
Construction and Other Deposits	63,142	8,908	14,884	12,056	10,175	11,203
Accrued Interest Payable	230,365	217,795	258,156	582,359	646,898	645,606
Retention Payable	-	-	27,771	245,627	77,541	64,035
Lease Liability, Current Portion	-	-	-	-	20,269	10,173
Subscription Liability, Current Portion	-	-	-	-	-	37,290
Compensated Absences, Current Portion	516,850	586,045	560,892	569,086	581,242	648,132
Current Portion of Other Long-Term Debt	<u>1,839,651</u>	<u>1,893,596</u>	<u>1,949,162</u>	<u>1,784,693</u>	<u>1,819,356</u>	<u>3,455,524</u>
Total Current Liabilities	\$ 6,679,433	\$ 5,825,260	\$21,233,270	\$11,564,565	\$7,590,402	\$7,509,337
Non-Current Liabilities						
Health Retirement Account Liability	\$ 240,814	\$ 258,421	\$ 351,796	\$ 351,250	\$ 378,664	\$ 307,468
Net OPEB Liability (Asset)	283,769	135,077	109,213	205,001	(19,452)	247,383
Net Pension Liability	12,746,294	12,541,929	13,629,333	14,721,348	9,197,303	17,127,503
Lease Liability, Net of Current Portion	-	-	-	-	10,173	-
Retention Payable	84,693	30,098	-	-	-	-
Compensated Absences, Net of Current Portion	775,275	879,067	841,338	853,629	871,864	972,198
Long-Term Debt, Net of Current Portion	<u>33,474,377</u>	<u>31,580,781</u>	<u>56,963,337</u>	<u>86,493,784</u>	<u>89,718,605</u>	<u>85,881,118</u>
Total Non-Current Liabilities	47,605,222	45,425,373	71,895,017	102,625,012	100,157,157	104,535,670
Total Liabilities	54,284,655	51,250,633	93,128,287	114,189,577	107,747,559	112,045,007
Deferred Inflows of Resources						
Deferred Amounts From Pension	843,878	957,275	915,032	265,130	8,418,155	1,668,860
Deferred Amounts From OPEB	7,358	118,346	100,383	74,205	175,205	41,941
Deferred Amounts From Lease Receivable	-	-	-	-	2,747,528	2,337,411
Deferred Revenue	-	<u>114,851</u>	-	-	-	-
Total Deferred Inflows of Resources	\$ 851,236	\$ 1,190,472	\$ 1,015,415	\$ 339,335	\$11,340,888	\$ 4,048,212
Net Position						
Net Investment in Capital Assets	\$79,333,568	\$80,125,400	\$82,199,752	\$83,368,399	\$84,830,631	\$84,709,855
Restricted for:						
1958 Annex Project	1,213,780	1,213,780	1,213,780	1,213,780	1,213,780	1,213,780
Debt Service	2,108,959	2,162,451	2,162,512	316,687	316,687	317,358
Pension	1,388,748	6,101,463	6,811,910	8,810,388	8,100,614	9,176,661
Unrestricted	<u>2,038,252</u>	<u>6,465,333</u>	<u>6,316,800</u>	<u>10,112,885</u>	<u>8,260,270</u>	<u>12,879,884</u>
Total Net Position	\$86,083,307	\$96,068,427	\$98,704,754	\$103,822,139	\$102,721,982	\$108,297,538

⁽¹⁾ Only the Net Revenues of the Water Fund are pledged toward the repayment of the Bonds. Neither the net revenues of the wastewater fund nor the net revenues of the recycled water fund are pledged toward the repayment of the Bonds.

Source: Fallbrook Public Utility District Audited Financial Statements, 2018-2023.

Historical Water Fund Revenues, Expenses, Debt Service Coverage.

Table 15 below shows historical Water Fund revenues, expenses and debt service coverage.

TABLE 15
Fallbrook Public Utility District
Historical Water Fund Revenues, Expenses and Debt Service Coverage

<u>Fiscal Year Ending June 30,</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Operating Revenues:					
Water Sales	\$12,997,586	\$14,040,914	\$17,115,866	\$16,464,444	\$14,194,199
Fixed Service Charges	6,291,436	6,782,468	7,237,052	7,664,909	8,259,546
Other Charges	<u>1,192,767</u>	<u>1,116,852</u>	<u>1,076,096</u>	<u>1,116,430</u>	<u>1,013,465</u>
Sub-Total	\$20,481,789	\$21,940,234	\$25,429,014	\$25,245,783	\$23,467,210
Operating Expenses:					
Cost of Water Sold	\$12,650,795	\$12,663,006	\$13,955,908	\$13,245,830	\$10,716,859
Operations & Maintenance	3,444,139	3,984,938	3,330,054	6,046,295 ⁽²⁾	3,126,441
Administrative & General Expenses	<u>3,807,921</u>	<u>3,985,541</u>	<u>4,036,546</u>	<u>4,322,980</u>	<u>4,642,717</u>
Sub-Total	\$19,902,855	\$20,633,485	\$21,322,508	\$23,615,105	\$18,486,017
Net Operating Income	578,934	1,306,749	4,106,506	1,630,678	4,981,193
Non-Operating Revenues (Expenses)					
Property Taxes	\$1,099,256	\$1,146,897	\$1,214,791	\$1,245,229	\$1,355,239
Capital Improvement Charges	1,305,331	1,368,292	1,413,080	1,457,378	1,589,961
Investment Income ¹	619,223	591,761	987,540	(1,174,671)	752,646
Connection Fees	<u>47,237</u>	<u>8,526</u>	<u>110,071</u>	<u>97,257</u>	<u>112,859</u>
Sub-Total	\$3,071,047	\$3,115,476	\$3,725,482	\$1,625,193	\$3,810,705
NET REVENUES	3,649,981	4,422,225	7,831,988	3,255,871	8,791,898
Debt Service Expense:					
2010 SRF Loan	\$ 395,850	\$395,851	\$395,851	\$395,850	\$395,850
2018 SRF Loan	<u>-</u>	<u>20</u>	<u>411,558</u>	<u>974,071</u>	<u>1,174,396</u>
Sub-Total	\$ 395,850	\$ 395,871	\$ 807,409	\$1,369,921	\$1,570,246
Debt Service Coverage	9.2	11.2	9.7	2.4	5.6

⁽¹⁾ Investment income in Fiscal Year ending June 30, 2022 includes a "mark-to-market" loss of \$1,325,967.

⁽²⁾ Increases in operations and maintenance expenses were due to the commissioning/commencing of operations of a new water treatment plant, increased GASB 68 pension expenses and other expenses.

Source: District.

Projected Water Fund Revenues, Expenses, Debt Service Coverage

Table 16 below shows projected Water Fund revenues, expenses and debt service coverage.

TABLE 16
Fallbrook Public Utility District
Projected Water Fund Revenues, Expenses, Debt Service Coverage

	<u>Fiscal Year</u> <u>2023-24</u>	<u>Fiscal Year</u> <u>2024-25</u>	<u>Fiscal Year</u> <u>2025-26</u>	<u>Fiscal Year</u> <u>2026-27</u>	<u>Fiscal Year</u> <u>2027-28</u>	<u>Fiscal Year</u> <u>2028-29</u>
<u>Gross Revenues</u>						
Water Rate Revenues ⁽¹⁾	\$25,102,000	\$26,359,000	\$27,293,000	\$28,396,000	\$29,688,000	\$31,037,000
Capital Improvement Charges	1,701,000	1,820,000	1,948,000	2,084,000	2,230,000	2,386,000
Other Fees, Charges & Revenues ⁽²⁾	1,259,000	964,000	970,000	977,000	984,000	991,000
Interest Earnings ⁽³⁾	364,000	353,000	403,000	411,000	426,000	434,000
Property Taxes ⁽⁴⁾	<u>854,000</u>	<u>863,000</u>	<u>871,000</u>	<u>880,000</u>	<u>889,000</u>	<u>898,000</u>
Total	\$29,280,000	\$30,359,000	\$31,485,000	\$32,748,000	\$34,217,000	\$35,746,000
<u>Operating & Maintenance Expenses</u>						
Purchased Water ⁽⁵⁾	7,168,000	7,991,000	8,543,000	9,073,000	9,583,000	10,078,000
Operations & Maintenance ⁽⁶⁾	5,857,000	6,164,000	6,445,000	6,741,000	7,050,000	7,375,000
Administrative Services ⁽⁶⁾	<u>5,078,000</u>	<u>5,132,000</u>	<u>5,338,000</u>	<u>5,551,000</u>	<u>5,773,000</u>	<u>6,004,000</u>
Total	\$18,103,000	\$19,287,000	\$20,326,000	\$21,365,000	\$22,406,000	\$23,457,000
<u>Net Revenues</u>	11,177,000	11,072,000	11,159,000	11,383,000	11,811,000	12,289,000
<u>Debt Service</u>						
2010 SRF Loan: Red Mountain	396,000	396,000	396,000	396,000	396,000	396,000
2018 SRF Loan: SMCUP	2,815,000	2,815,000	2,815,000	2,815,000	2,815,000	2,815,000
2024 Water Revenue Bonds	<u>-</u>	<u>675,782</u>	<u>676,750</u>	<u>677,500</u>	<u>677,750</u>	<u>677,500</u>
Total	\$ 3,211,000	\$ 3,886,782	\$ 3,887,750	\$ 3,888,500	\$ 3,888,750	\$ 3,888,500
<u>Debt Service Coverage</u>	3.48	2.85	2.87	2.93	3.04	3.16
<u>Net Revenues After Debt Service</u>	7,966,000	7,185,218	7,271,250	7,494,500	7,922,250	8,400,500

⁽¹⁾ Based on rate increases of 3.5% in Fiscal Year 2024-25, 3.5% in Fiscal Year 2025-26, and 4.5% per year thereafter, and projected normal year water sales. Projected rate increases are lower than previously-adopted rates.

⁽²⁾ Includes Pumping Charges, Backflow Charges, Facility Rent/Lease Revenue, Water Standby Charges, Water Capacity Charges, and other miscellaneous fees.

⁽³⁾ Based on 2% of projected fund reserves as of the beginning of each Fiscal Year.

⁽⁴⁾ Net of allocation to the Community Benefit Fund.

⁽⁵⁾ Based on MWD wholesale water rate projections, projected normal year water demand, and average year water production from the Santa Margarita Conjunctive Use Project.

⁽⁶⁾ Based on District's Fiscal Year 2023-24 Budget and District estimates of future cost escalation.

Source: Bartle Wells Associates.

Pension and OPEB Plans

Pension Benefits. The District participates in CalPERS and has two benefit tiers. The Classic employees are eligible to receive 2.5% of their single highest annual salary for each year of service at the age of 55. An employee hired after January 1, 2013, and is new to CalPERS, or those that have had a break in service of more than six-months fall under the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). PEPRA employees are eligible to receive 2.0% of the highest three-year average annual salary for each year of service at the age of 62. Both Classic and PEPRA employees are potentially subject to salary maximums when determining their benefit, see APPENDIX B – "ANNUAL COMPREHENSIVE FINANCIAL REPORT."

CalPERS Unfunded Actuarial Accrued Liability. The District contributes to the California Public Employees Retirement System ("CalPERS"), a cost-sharing multi-employer defined benefit pension plan (the "Plan"). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The UAL is a portion of the pension liability that has been earned but has not been fully funded. The liability is estimated by an actuary based upon many different underlying assumptions. CalPERS amortizes these existing liabilities over a 30-year period. The District's net pension liability in Fiscal Year 2020-21 was \$11.5 million. In Fiscal Year 2021-22, the latest CalPERS valuation date, the District's pension liability was 79.2% funded for Classic employees and 104.2% funded for PEPRA employees. Overall, including the Pension Trust Funds, the District has funded 85% of its pension liabilities, see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING."

The Normal Cost Rate ("NCR") is the percentage of payroll that is contributed to CalPERS to pay for the benefit earned by employees in the current year. This rate is expressed as a percent of payroll. The NCR for Classic employees for Fiscal Year 2023-24 is 14.92% of payroll, which is up from the Fiscal Year 2022-23 which was 13.02%. The NCR for PEPRA employees is 8.0% of payroll in Fiscal Year 2023-24 and was 7.76% in Fiscal Year 2022-23.

Other Post-Employment Benefits ("OPEB") Benefits. Effective January 7, 2022, the District provides a retiree healthcare benefit to employees who were hired before July 1, 2022, have ten years of service and are 50 or older. Under the OPEB benefit the District pays for half of the employees' health insurance premium until the beneficiary is 65-years old. The employee must contribute the other half of the insurance premium. The District has established the Section 115 Pension and OPEB Trust Fund to fund the District's OPEB liabilities. The District's OPEB liability is almost fully funded based upon an actuarial valuation report as of June 30, 2021. As of March 31, 2023, the OPEB Trust Fund held \$1,122,669.

Section 115 Pension and OPEB Trust Fund. The Section 115 Pension and OPEB Trust Fund was established by the District in Fiscal Year 2016-17 as an irrevocable trust for the benefit of the pension and OPEB beneficiaries. The fund is managed by Public Agency Retirement Services (PARS) and is restricted in its use to funding pension and OPEB expenditures. The funds restricted for OPEB and pension costs are tracked in the fund. The fund balance was \$10.9 million on December 31, 2023. The District has developed a strategy to use returns from the fund to help off-set on-going OPEB costs.

For additional details on the District's pension liabilities, and the assumptions included therein, see APPENDIX B – "ANNUAL COMPREHENSIVE FINANCIAL REPORT."

RISK FACTORS

Accuracy of Assumptions

To estimate the revenues that will be available to pay debt service on the Bonds, the District and the Rate Consultant have made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Water System and the interest rate at which funds will be invested. The District believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service on the Bonds will, in all likelihood, be less than those projected herein.

System Demand

There can be no assurance that the demand for water services will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for water services could be reduced as a result of hydrological conditions, conservation efforts, drought, an economic downturn or other factors.

Limited Recourse on Default

If the District defaults on its obligation to pay the principal of and/or interest on the Bonds, the Trustee has the right to declare the total unpaid principal of the Bonds, together with the accrued interest thereon to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the District will have sufficient funds to pay the accelerated amounts due on the Bonds from the Net Revenues.

Regulatory Requirements

The operations of the Water System are subject to state and federal laws and regulations, particularly with respect to water quality discharge requirements. The adoption of more stringent laws or regulations may cause the District to incur greater expenses for the operation of the Water System. No assurance can be given that the costs of complying with any such new laws or regulations will not adversely affect the District's ability to generate sufficient Net Revenues in the amounts or on the schedule required by the Indenture.

To the extent regulatory agencies or other governmental agencies impose more stringent requirements on the District's distribution of water, costs could increase.

Natural Disasters

General. From time to time, the service area of the District is subject to natural calamities that may adversely affect economic activity in the District, which could have a negative impact on Water System finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Water System, or that the District would have insurance or other resources available to make repairs to the Water System in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the Water System due to earthquake, fire, flood or other natural calamities.

Seismic. Like most of California, the service area of the District is subject to unpredictable seismic events such as earthquakes. Potential hazards related to earthquakes include ground shaking, surface rupture along the fault zone, and related secondary ground failures. Typical seismically-induced ground failures include liquefaction, lateral spreading, ground lurching, landslides, inundation, and settlement. Seismic events could destroy or damage portions of the Water System, thereby increases the District's expenses, or reduce demand for its water service by damaging businesses and residential dwelling that are customers, thereby decreasing revenues.

Flooding. Portions of the service area of the District are subject to flooding from time to time, primarily as a result of large-scale winter rain events. Flooding may cause damage to the District's facilities or other structures within the District's service area and any such damage may be material.

Fire. In recent years, portions of California have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures, even in areas not previously thought to be prone to wildfires. Such areas affected by wildfires are more prone to flooding and mudslides that can further lead to the destruction of homes. Fires may cause damage to District facilities or other structures within the District's service area and any such damage may be material. To date, there have been no wildfires in the District's service area that have destroyed a significant amount of property or disrupted service for any significant period of time.

Drought. From time to time, areas of the State have experienced significant drought conditions that resulted in severe impacts to water supplies and restrictions on water use. On July 8, 2021, Governor Newsom issued Executive Order No. 10-21, which declared a drought state of emergency in 50 counties in northern and central California and requested that all water users voluntarily reduce water use by fifteen percent (15%). On October 19, 2021, the Governor extended the declaration to include the remaining counties, such that the drought state of emergency is in effect Statewide. In the last ten years, the per capita water use in the system has been reduced due to conservation measures. The District does not believe that California's drought conditions would impact the District's finances. However, there can be no assurance that subsequent declarations will not result in mandatory restrictions on water use in the District's service area should dry conditions persist in future years. An increase in drought conditions could also lead to wildfires which may cause damage within the District. See "-Fire" above.

Climate Change

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution. For example, the Fifth National Climate Assessment, published by the U.S. Global Change Research Program, in November 14, 2023 (NCA5) finds that climate change is affecting agriculture, forests, rural communities, water, and natural resources across the United States, and will continue to over the next century through changing temperatures, precipitation patterns, drought, flooding, and increasingly more severe extreme events, such as wildfires.

Cybersecurity

The District, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations and finances. As a recipient and provider of personal, private and other sensitive electronic information, the District is potentially subject to multiple cyber threats including, but not limited to, hacking, viruses, malware, ransomware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage.

The District has never had a major cyber breach that resulted in a financial loss or operational disruption. The District provides training to its staff on phishing and safe browsing and how to avoid potential cyber threats. However, no assurances can be given that the security and operational control measures of the District will be successful in guarding against any and each cyber threat or breach.

Limited Recourse on Default

If the District defaults on its obligation to make the debt service payments under the Indenture, the Trustee has the right to accelerate the total unpaid principal amount of such payments. However, in the event of a default

and such acceleration there can be no assurance that the District will have sufficient funds to pay the accelerated payments.

Limitations on Remedies

The ability of the District to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Constitutional Limitations on Appropriations and Fees” below. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects 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 limitations on Bond Owner remedies contained in the Indenture, the rights and obligations under the Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Articles XIII C and XIII D

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 XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIII D 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 XIII D, the local government’s ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (a) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel;

(d) 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; and (e) no fee or charge may be imposed for general governmental purposes.

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 stated 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 property-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. The District has complied with the notice and public hearing requirements of Article XIID in establishing Water System rates and charges.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article 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 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. In any event, the District does not believe that Article XIIC grants to the voters within the District the power to repeal or reduce rates and charges for the water service in a manner which would be inconsistent with the contractual obligations of the District. On August 3, 2020, the Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (2020) 9 Cal.5th 1105 holding that taxpayers do not have the right under Proposition 218 to challenge water rates by referendum and the District does not believe that Article XIIC grants to the voters within the District the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) to repeal or reduce rates and charges for water service in a manner that would interfere with the contractual obligations of the District to maintain and operate the Water System.

However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Bonds. Remedies available to beneficial owners of the 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. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIIC. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIIC and XIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope 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 cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after

the date of its approval. The District believes its Water System rates and charges are not taxes under Proposition 26. The District is unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Constitutional Limitations on Appropriations and Fees

Under Article XIII B of the California Constitution, as amended, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The District is of the opinion that the user charges of the Water System imposed by the District do not exceed the costs the District reasonably bears in providing the Water Service. In general terms, the “appropriations limit” is to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the Water System’s revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

A voter initiative entitled “The Taxpayer Protection and Government Accountability Act” (“Initiative 1935”) was recently determined to be eligible for the November 2024 Statewide general election and will be certified as qualified for the ballot in such election, unless withdrawn by its proponent prior to June 27, 2024 or a pending court challenge is successful in preventing Initiative 1935 from appearing on the ballot. Were it to be adopted by the voters in the Statewide general election, Initiative 1935 would amend the California Constitution to provide, among other things, that charges for services or product provided directly to the payor are “taxes” subject to voter approval unless the local government can prove by clear and convincing evidence that the charge is reasonable and does not exceed the “actual cost” of providing the service or product. The District charges fees based upon the cost of service and this ballot initiative is not anticipated to have an impact on the District’s rates and charges or the process for approving rates and charges under Article XIII D (see “Article XIII D” herein).

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, the District has covenanted in the Indenture to comply with the applicable requirement of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Interest on the 2023 Bonds could become includable in gross income for purpose of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the District in violation of this or other covenants in the Indenture applicable to the Bonds. The Bonds are not subject to redemption or any other increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provision contained in the Indenture. See caption “TAX MATTERS.”

Impact of Economic Conditions of the Development in the District

Certain events and factors which negatively affect the regional, State and national economies could have an adverse effect on the Water System and its finances, such as the COVID-19 pandemic and global market

instability caused by the war in Ukraine and in the Middle East. Any adverse impact of the foregoing and other economic factors on the Water System and its finances cannot be predicted.

Risks Associated with Bond Insurance

In the event that the District defaults in the payment of principal of or interest on the Insured Bonds, the Owners of the Insured Bonds will have a claim under the Policy for such payments. See the caption “BOND INSURANCE.” In the event that the Insurer becomes obligated to make payments with respect to the Insured Bonds, no assurance can be given that such event will not adversely affect the market for the Insured Bonds. In the event that the Insurer is unable to make payment of principal of and interest on the Insured Bonds when due under the Policy, the Insured Bonds will be payable solely from Net Revenues and amounts held in certain funds and accounts established under the Indenture, as described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The long-term rating on the Insured Bonds is dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. If the long-term ratings of the Insurer are lowered, such event could adversely affect the market for the Insured Bonds. See the caption “RATINGS.”

Neither the District nor the Underwriter have made an independent investigation of the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is being made by the District or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the Insured Bonds, potential investors should carefully consider the ability of the District to pay the principal and interest on the Insured Bonds, assuming that the Policy is not available for that purpose, and the claims-paying ability of the Insurer through final maturity of the Insured Bonds.

So long as the Policy remains in effect and the Insurer is not in default of its obligations thereunder, the Insurer has certain notice, consent and other rights under the Indenture and will have the right to control all remedies for default under the Indenture as to the Insured Bonds. The Insurer is not required to obtain the consent of the Owners with respect to the exercise of remedies.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District and the Water System by not later than March 1st following the end of each Fiscal Year (presently June 30), commencing with its report for the Fiscal Year ended June 30, 2024 (the “Annual Report”), due March 1, 2025, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed with the Municipal Securities Rulemaking Board (the “MSRB”). These covenants have been made in order to assist Stifel, Nicolaus & Company, Incorporated, the underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The specific nature of the information to be contained in the Annual Report and the enumerated events is summarized in APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

As an obligated party under the Rule, the District was responsible during the past five years for providing continuing disclosure with respect to previously issued bonds. In conjunction with the delivery of the Bonds, the District engaged Willdan Financial Services (“Willdan”) to conduct a continuing disclosure compliance review under the Rule. Based on the compliance review conducted by Willdan, the District has determined that with respect to the previously issued bonds, the District has fully complied under the Rule with the requirements to file annual reports or notices of enumerated events during the past five years.

LEGAL OPINIONS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Best Best & Krieger, LLP, Riverside, California, Bond Counsel, and certain other conditions. Best Best & Krieger LLP is also serving as Disclosure Counsel to the District. Certain legal matters will be passed upon for the District by the District's general counsel, Best Best & Krieger LLP. The compensation of Bond Counsel and Disclosure Counsel is contingent on the successful sale of the Bonds.

TAX MATTERS

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, for tax years beginning after December 31, 2022, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel notes that interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 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 Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

Should the interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Indenture.

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

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

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

NO LITIGATION

There is no action, suit, or proceeding pending or, to the best knowledge of the District, threatened at the present time restraining or enjoining the delivery or in any way contesting or affecting the validity of the Bonds, the Indenture or the proceedings of the District taken with respect to the execution or delivery thereof.

Except as otherwise described herein, there is no action, suit or proceeding known to be pending or threatened against the District contesting or affecting the ability of the District to collect amounts from which debt service on the Bonds are payable, or which would have a material adverse effect on the District, including the District's ability to pay debt service on the Bonds.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") has assigned a rating of "AA" to the Insured Bonds, based upon the issuance and delivery of the Municipal Bond Insurance Policy by AGM at the time of delivery of the Insured Bonds. S&P has assigned its underlying rating of "AA-" to the Bonds, as shown on the cover of this Official Statement. Such rating reflects only the views of S&P. An explanation of the significance of the rating may be obtained from S&P at 55 Water Street, New York, New York 10041, (212) 438-2000. The District can provide no assurance the rating will continue for any given time period or that it will not be revised or withdrawn by S&P if, in its judgment, circumstances so warrant. Any revision or withdrawal of the rating may adversely affect the market price of the Bonds.

MUNICIPAL ADVISOR

The District has entered into an agreement with Wulff, Hansen & Co., San Rafael, California (the "Municipal Advisor"), whereunder the Municipal Advisor is providing municipal advisory services to the District with respect to the preparation and sale of the Bonds.

The Municipal Advisor has read and participated in the drafting of certain portions of this Official Statement. The Municipal Advisor has not audited, authenticated or otherwise verified the information in the Official Statement, and makes no guaranty, warranty or other representation regarding the accuracy or completeness of such information. The compensation of the Municipal Advisor is contingent upon the sale of the Bonds.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). [The Underwriter has agreed to purchase the Bonds at a price of \$11,945,170.30 (being the \$11,205,000.00 aggregate principal amount of the Bonds, less an Underwriter's discount of \$53,615.00 and plus net original issue premium of \$793,785.30). The bond purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, by and between the District and the Underwriter dated

February 27, 2024, the approval of certain legal matters by counsel and certain other conditions. The Underwriter's compensation is contingent upon the successful issuance of the Bonds.

Under certain circumstances, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower or yields higher than those stated on the page immediately following the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

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MISCELLANEOUS

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Holders of any of the Bonds.

The preparation and distribution of this Official Statement has been duly authorized by the District.

FALLBROOK PUBLIC UTILITY DISTRICT

By: /s/ Jack Bebee
Jack Bebee
General Manager

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APPENDIX A

GENERAL INFORMATION ABOUT FALLBROOK AND SAN DIEGO COUNTY

The following information is included only for the purpose of supplying general information regarding the unincorporated community of Fallbrook and the County of San Diego (the “County”). This information is provided only for general informational purposes and provides prospective investors limited information about this region and its economic base. The Bonds are not a debt of the State, the County or any of its political subdivisions, and neither the State, the County nor any of its political subdivisions is liable therefor.

The County is the southern-most county in California. The County covers an area of approximately 4,280 square miles, about the size of the state of Connecticut. The County is bordered by the Pacific Ocean to the west, Orange and Riverside Counties to the north, Imperial County to the east, and the State of Baja California, Mexico to the south. The County includes 70 miles of the Pacific Ocean coastline, the Anza-Borrego Desert, which forms the eastern third of the county, the Laguna Mountains, the San Diego Bay, one of the world’s largest natural deep-water harbors, and the San Diego International Airport.

The County possesses a diverse economic base consisting of electronics manufacturing and shipbuilding, tourism, biotech and software development, and defense-related industries. The County is also growing as a center for culture and education. Over 30 recognized art organizations including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County.

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933 and is amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials include the Assessor/County Clerk/Recorder, District Attorney, Sheriff and Treasurer/Tax Collector.

Population

The following sets forth the County and the State population estimates as of January 1 for the years 2019 to 2023.

SAN DIEGO COUNTY AND STATE OF CALIFORNIA Estimated Population

Year (January 1)	San Diego County	State of California
2019	3,333,319	39,605,361
2020	3,298,634	39,538,223
2021	3,283,113	39,286,510
2022	3,275,435	39,078,674
2023	3,269,755	38,940,231

Source: State of California Department of Finance, Demographic Research Unit.

Industry and Employment

The District is included in the San Diego-Carlsbad Metropolitan Division, which includes all of the County. The unemployment rate in San Diego County was 4.2 percent in November 2023, unchanged from a revised 4.2 percent in October 2023, and above the year-ago estimate of 3.3 percent. This compares with an unadjusted unemployment rate of 4.9 percent for California and 3.5 percent for the nation during the same period.

Set forth below is data from 2018 to 2022, reflecting the County's civilian labor force, employment and unemployment.

**SAN DIEGO-CARLSBAD MSA
(San Diego County)
Annual Average Labor Force, Employment and Unemployment,
Unemployment by Industry
(March 2022 Benchmark)**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Civilian Labor Force ⁽¹⁾	1,579,800	1,583,600	1,547,300	1,547,800	1,589,600
Employment	1,526,600	1,532,200	1,401,900	1,447,500	1,534,800
Unemployment	53,200	51,400	145,400	100,300	54,700
Unemployment Rate	3.4%	3.2%	9.4%	6.5%	3.4%
Agriculture	9,300	9,700	9,200	9,000	9,500
Mining and Logging	400	400	300	300	400
Construction	83,700	84,000	81,300	83,800	87,400
Manufacturing	112,300	115,700	113,800	114,400	117,400
Wholesale Trade	43,800	44,000	41,300	42,100	43,800
Retail Trade	147,900	145,600	133,200	137,600	138,300
Transportation, Warehousing and Utilities	33,300	34,300	33,300	37,100	40,200
Information	23,600	23,500	22,100	21,500	22,000
Finance and Insurance	46,700	46,400	46,200	46,800	46,100
Real Estate and Rental and Leasing	29,300	30,200	28,600	29,400	30,900
Professional and Business Services	249,000	255,800	248,300	265,300	285,200
Private Educational and Health Services	208,900	216,600	210,900	216,700	227,600
Leisure and Hospitality	199,600	201,700	144,800	161,600	193,400
Other Services	55,500	56,400	44,800	47,500	54,500
Federal Government	47,100	47,600	48,600	47,700	47,000
State Government	50,700	50,400	48,200	51,000	55,500
Local Government	<u>150,300</u>	<u>150,600</u>	<u>140,200</u>	<u>139,200</u>	<u>144,300</u>
Total, All Industries ⁽²⁾	1,491,400	1,512,800	1,395,000	1,451,100	1,543,700

⁽¹⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽²⁾ Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The largest manufacturing and non-manufacturing employers as of December 2023 in the County are shown below, in alphabetical order.

SAN DIEGO COUNTY

Largest Employers

December 2023

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
32nd St Naval Station	San Diego	Federal Government-National Security
Collins Aerospace	Chula Vista	Aircraft Components-Manufacturers
General Dynamics Nassco	San Diego	Ship Builders & Repairers (mfrs)
Illumina Inc	San Diego	Biotechnology Products & Services
Kaiser Permanente Vandever Med	San Diego	Physicians & Surgeons
MCCS MCRD SN DIEGO-MRNE CORPS	San Diego	Military Bases
Merchants Building Maintenance	San Diego	Janitor Service
Page One Seo	San Diego	Mental Health Services
Rady Children's Hospital	San Diego	Hospitals
San Diego Community College	San Diego	Junior-Community College-Tech Institutes
San Diego County Sheriff	Santee	Police Departments
Scripps Mercy Hosp Sn Diego	San Diego	Hospitals
Scripps Research Institute	La Jolla	Laboratories-Research & Development
SDG & E	San Diego	Gas Companies
Seaworld San Diego	San Diego	Amusement & Theme Parks
Sharp Grossmont Hospital	La Mesa	Hospitals
Sharp Grossmont Rehab Ctr	La Mesa	Vocational Rehabilitation Services
Sharp Mary Birch Hosp	San Diego	Hospitals
Sharp Memorial Hospital	San Diego	Hospitals
Sony Electronics Inc	San Diego	Electronic Equipment & Supplies-Retail
UC San Diego Health	San Diego	Health Care Management
Ucsd-Neural Computation	La Jolla	University-College Dept/Facility/Office
University of California	La Jolla	University-College Dept/Facility/Office
University-California Sn Diego	La Jolla	Schools-Universities & Colleges Academic
VA San Diego Healthcare System	San Diego	Hospitals

Source: California State Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2024 1st Edition.

Commercial Activity

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during 2022 in the County were reported to be \$80,699,960,953 a 11.92% increase over the total taxable sales of \$71,714,654,866 in 2021.

SAN DIEGO COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2018	59836	\$41,886,824,903	100674	\$59,041,041,694
2019	59447	42,816,938,431	101901	61,365,277,203
2020	62897	41,336,898,119	109428	58,814,527,896
2021	55683	49,891,084,243	98392	71,714,654,866
2022	25590	55,405,593,930	101259	80,699,960,953

Source: State Department of Tax and Fee Administration.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles Area and points north. Interstate 15 runs inland, leading the Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 21 major airlines. In addition to San Diego International Airport, there are several general aviation airports located in the County, including McClellan-Palomar Airport in Encinitas.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

APPENDIX B

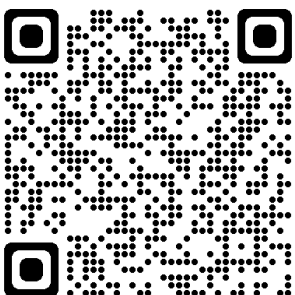
ANNUAL COMPREHENSIVE FINANCIAL REPORT

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A Special District in the State of California

**Annual Comprehensive Financial Report
For the Fiscal Year Ending June 30, 2023**



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A Special District within the State of California

ANNUAL COMPREHENSIVE FINANCIAL REPORT

Fiscal Year ending June 30, 2023

Current Board of Directors:

District #1 - Dave Baxter

District #2 - Ken Endter

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

District #5 - Charley Wolk, President

Prepared by District Management:

General Manager - Jack Bebee

Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Jodi Brown, Jason Jared, Aaron Cook, Jesse Perez, Mick Cothran, Joye Johnson, Annalece Bokma, Veronica Tamzil, Christi Ray, Todd Jester and Kelly Laughlin for their support in preparing this document.

Fallbrook Public Utility District
990 East Mission Road
Fallbrook, CA 92028
(760) 728-1125
www.fpud.com

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Front Cover: The Santa Margarita Groundwater Treatment Plant began operations last fiscal year.

INTRODUCTORY SECTION



November 15, 2023

Board of Directors

Fallbrook Public Utility District

990 East Mission Road

Fallbrook, California 92028

To the Board of Directors and Citizens of Fallbrook:

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) for the Fallbrook Public Utility District (District) for the fiscal year ended June 30, 2023. The purpose of this report is to provide the Board, the public, and other interested parties, with reliable and transparent financial information about the District.

The ACFR is being produced as part of management's continued efforts to enhance the District's fiscal transparency and to support a better understanding of the District's financial operations. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

CliftonLarsonAllen, LLP, Certified Public Accountants, have issued an unmodified opinion on the Fallbrook Public Utility District's financial statements for the year ended June 30, 2023. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report in the Financial Section and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. Following the MD&A are the basic financial statements, notes to the statements, and an unaudited section of statistical information.

This report has been prepared using the financial reporting model recommended in the Government Accounting Standards Board's (GASB) Statement 34. The GASB requires proprietary fund governments to use the full accrual basis of accounting. The accompanying statements have been prepared using the full accrual basis.

990 East Mission Road
Fallbrook, California
92028-2232
www.fpud.com
(760) 728-1125

Board of Directors

Dave Baxter
Division 1

Ken Endter
Division 2

Jennifer DeMeo
Division 3

Don McDougall
Division 4

Charley Wolk
Division 5

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
Board Secretary*

General Counsel

Paula de Sousa
Best Best & Krieger



District Profile

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

The District became a member of the San Diego County Water Authority (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County.

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

Water System

In the past, the District imported 99% of its potable water from the SDCWA with the remaining 1% coming from a local well. With the Santa Margarita Groundwater Treatment Plant (SMGTP) now operational, a significant amount of the District's water supply will be provided through its Santa Margarita River Water Rights. This new local supply is expected to reduce the average annual amount of water purchased from SDCWA by 40% or more. The District's cost to treat and deliver the local water supply is expected to be less than the current cost of purchasing the same amount of water from SDCWA. With a local supply available, the District's ratepayers are not only saving on the cost of water but also limiting the impact of future SDCWA rate increases.



Santa Margarita Groundwater Treatment Plant

The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District has nearly completed an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use. The District has 4 connections to the imported water system, three of the four are directly connected to MWD owned pipelines and the fourth, which is currently not in use, is connected to SDCWA's pipeline.

The District's five-year average annual water sales is 7,383 acre-feet. Residential and commercial customers represent 71% of sales, and agricultural customers make up the remaining 29%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is being driven by the economics of agriculture production and the fact that high wholesale water costs make only limited number of crops profitable. The District's agricultural water sales have reduced from 7,000 acre-feet in Fiscal Year 2008 to 1,597 in Fiscal Year 2023 or down 77%.

Wastewater System

The District's wastewater system is comprised of 79 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 12-mile ocean outfall line. The District's wastewater system has 5,039 customers with an annual influent flow of 599 million gallons of wastewater. The District hauls approximately 300 dry tons of biosolids each year to various facilities for composting and land application.



Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 30 recycled water connections, and delivers an average of 0.4 million gallons per day. The District provides recycled water for plant nurseries, sports fields, home owners' associations, Fallbrook High School, and street medians. In 2023, the District completed an updated Recycled System Master Plan in which potential system expansions were identified and analyzed for targeted implementation. Over 600 acre feet per year of potable demand could be served with recycled water if all extensions were implemented. Funding for the most feasible expansions is being pursued through State and Federal resources. In addition, the District will coordinate outreach to assist irrigators with planning, permitting, purchasing new equipment and receiving grant funds. Assisting growers through the entire process will help bring new recycled customers online.

The District is exploring other projects to maximize the local beneficial use of recycled water, including the development of a joint Indirect Potable Reuse (IPR) Project with Camp Pendleton Marine Corps Base (CPEN) and the feasibility of building the infrastructure necessary for Direct Potable Reuse (DPR).



Governance and Organizational Structure

The District's Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to "election by district" and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District's service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

Elected District Officials (As of 06/30/2023):

District #1 - Dave Baxter

District #2 - Ken Endter

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

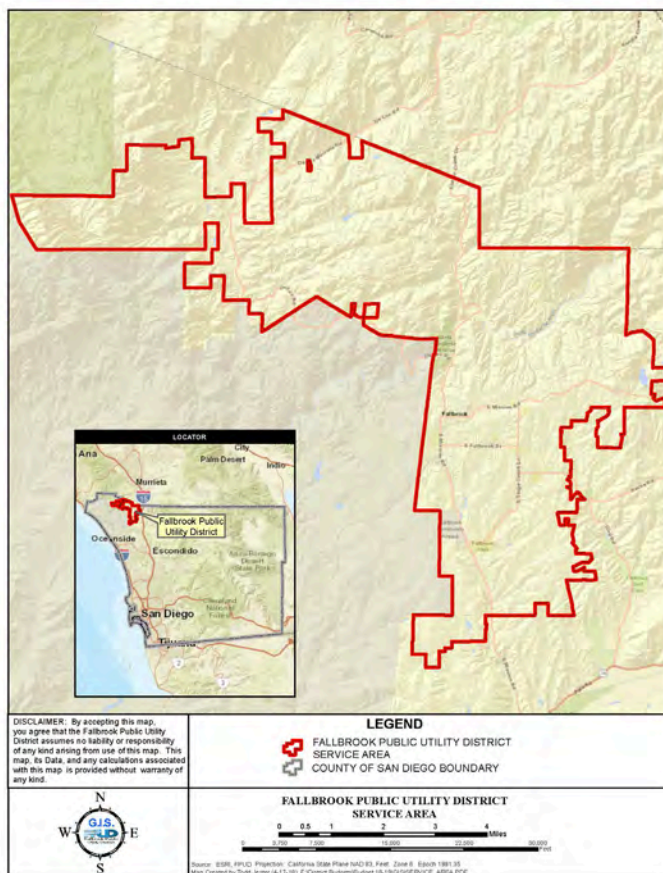
District #5 - Charley Wolk, President

Service Area and Local Economy

San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District's service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District's service area a bedroom community for Camp Pendleton's active military and civilian-service workers. The service area's 2021 population is estimated to be 34,738 with 10,134 households. Fallbrook's population has remained relatively unchanged over the past several years.

The median household income in Fallbrook was \$73,165, which is less than the state median of \$84,097 and slightly higher than the national average of \$69,021. Being only slightly higher than the national average is noteworthy since California is one of the most expensive states to live in.

The San Diego Association of Governments (SANDAG) projects that the County's population will approach 3.7 million residents in 2050, up from 3.3 million in 2021. The District's 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.



Financial Policies

The District maintains certain policies that govern aspects of the District's financial management. The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management.
- Investment Policy – Establishes permitted investments in compliance with State Code.
- Fund Balance/Reserve Policies – Set target balances for reserves and working capital.
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure.

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code.

Long-Range Planning

The District engages in a wide range of long range planning activities. In 2022, the District completed the process of updating its 2017 financial plan. As part of the financial plan update, the District considered the economic benefits of detachment from San Diego County Water Authority (SDCWA) and annexing into Eastern Municipal Water District's (EMWD's) service area, established a rate and charge plan for each enterprise that ensured financial sustainability, and restructured rates and charges to better align level of service with cost of service. Each year a 10-year Capital Improvement Plan (CIP) is developed for water, recycled water and wastewater services' as part of the annual budget process. Other planning activities include establishing and funding a 115 Trust to offset the District's pension and Other Post Employment Benefits (OPEB) liabilities. On June 30, 2023, the trust held \$9.2 million in assets to offset in District's OPEB and Pension liabilities.

In 2018, the District adopted a new Mission Statement to ensure the District's activities are aligned with the stakeholder interests. To benefit the community of Fallbrook by providing efficient and reliable services the District has identified the following long-range strategic focus areas.

#1 Strategic Focus Area | Water Supply

Need: The District is focused on managing its water supply mix to provide rate payers with reliable and affordable water.

Goal: Provide a reliable, cost-effective water supply through optimization of the District's local supply and securing wholesale water at a more reasonable cost.

Strategy: Maximize local water supplies from the Santa Margarita River water rights settlement. Evaluate further expansion of recycled water system to utilize available capacity and provide a local cost-effective drought proof supply to recycled water customers. Change the District's wholesale provider to provide immediate and substantial financial relief to the District's water customers.

#2 Strategic Focus Area | Infrastructure

Need: The District was formed in 1922 and has aging infrastructure throughout its service area. Over the last few years, pipe failures have caused increased service disruptions and property damage. If not

addressed, these problems will increase significantly as the existing infrastructure reaches the end of its useful life.

Goal: Maintain reliable infrastructure to our customers in the most cost-effective manner.

Strategy: Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

#3 Strategic Focus Area | Efficiency

Need: While the District has been able to maintain reliable service with limited resources, additional legal and environmental requirements along with rising employee costs require the District to do more with less to help control water and wastewater rates.

Goal: Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

Strategy: Continue taking incremental steps toward developing an organization that is a model in the industry for operational practices and efficiency, and one that is looked to as an industry leader for a smaller utility. Collaborate with other agencies locally and nationally to implement best practices in the industry.

#4 Strategic Focus Area | Community

Need: The District was formed by the community as a local resource, but the need to increase rates for long-term fiscal sustainability and to address past under-investments in infrastructure negatively affects our customers' public opinion of the District.

Goal: Improve experience for our customers to help provide a positive impact on the community we serve.

Strategy: Improve messaging and District approach, from field staff to management, to make sure we are approaching our activities with a focus on the customer's perspective. Establish programs that help invest in our community.

#5 Strategic Focus Area | Workforce

Need: Maintain a workforce of qualified and capable staff. Recruiting is challenging for qualified replacements with the necessary knowledge of water and wastewater operations, heavy construction, finance and engineering.

Goal: Develop a well trained and educated workforce that is capable of filling key positions to maintain the organization's resilience.

Strategy: Create an organization where many key positions are developed internally and a formal program exists to identify staff with management potential and provide necessary training. Establish a work environment and reputation in the industry that draws qualified candidates with external recruitments.

Major Initiatives

Implementing Change

With the Santa Margarita Groundwater Treatment Plant (SMGTP) delivering treated Santa Margarita River water to ratepayers, the District has focused on optimizing operations to maximize the benefit of the SMGTP to rate payers. The seamless integrating of the SMGTP, an advanced water treatment facility, into system operations highlights the District's extensive preparation and the outstanding work performance of District staff. Looking forward this local supply will be a cornerstone of the District's water supply portfolio and provide future District ratepayers long-term rate relief from increasing water costs at the wholesale and State levels.

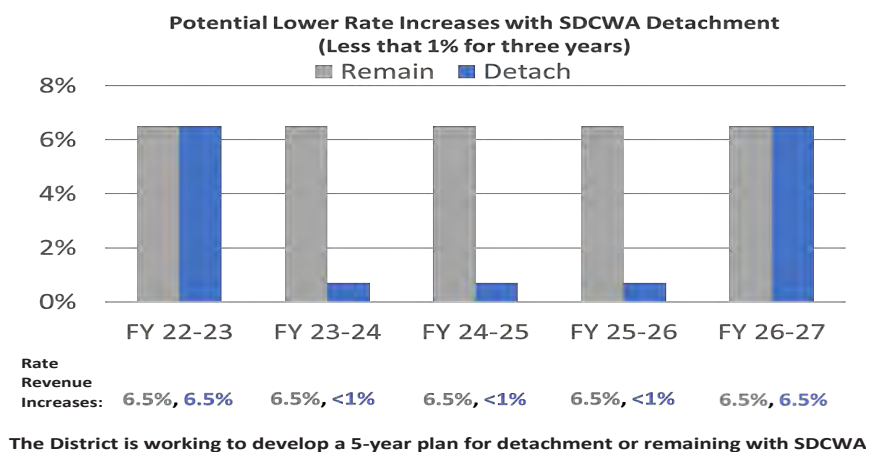
The addition of a water treatment plant to District operations resulted in a significant change to the District's cost of service structure. To ensure the changes in cost structure were equitably integrated into rates and charges, the District completed a comprehensive cost of service study. After several public workshops were conducted and Board and stakeholder input reviewed, the cost of service study and a comprehensive financial plan was developed in 2022. The financial plan provides a detailed road map going forward that maintains the District's fiscal sustainability for future generations.

Water Affordability

The District has faced a decade of escalating wholesale water costs driven by costly infrastructure investments by the San Diego County Water Authority (SDCWA) in supply reliability. This year SDCWA increased its treated water supply cost by 13%. With the City of San Diego (the City) driving SDCWA's double digit increases, the cost of treated water has increased by more than 20% over the past two years. While the City's local supplies will dramatically reduce its water purchases from SDCWA, the City continues to drive decisions to add of staff and invest in large scale capital projects that will continue to drive up SDCWA's costs up for decades.

This year's 13% increase highlights the operational challenges SDCWA is facing from both declining water demands and increasing operating and capital costs. With SDCWA's fiscal sustainability in question, the District has initiated a process to change its water wholesaler to Eastern Municipal Water District (EMWD). This change would not only reduce the District's cost of water by approximately 30% but also maintain a comparable level of water supply reliability. The significant cost savings that would result from this change would help make the District's water more affordable for the community and help revitalize the region's agricultural industry and local economy.

SDCWA Detachment Savings Analysis



This year the District achieved the significant milestone of securing the Local Agency Formation Commission's (LAFCO) approval for detachment. The final step in the detachment process is a vote in November of 2023 of the District's service area for approval of the action. While the District faces stiff opposition from both SDCWA and the City, LAFCO saw the value to rate payers of detachment and the importance of the District to be choose its water supplier.

Asset Management

The District has implemented an asset management program that considers condition and consequence of failure when making asset renewal and replacement decisions. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District's replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District is proactively managing the renewal and rehabilitation program targeting prioritized assets and is on a path to drive the system service life down from 400 years to 100 years.

Continuous Improvement

This year the District added a series of Key Performance Indicators (KPIs) to its budget to facilitate operational improvements. Focused on core operational activities, the KPIs allow benchmarking against peer organizations and trending over time. Over time, the KPIs are expected to enable management to optimize operations and identify areas of potential improvement.

The District began an overhaul of its deferred compensation plans including the formation of a Fiduciary Committee to oversee the plans and a competitive solicitation of third party plan administrator. Establishing best in class deferred compensation plans is critical to the retirement planning of PEPPRA participants as these plans play a more significant role in retirement income planning. Through this process, the District was able to engage staff and reduce the administrative fees paid to the plan administrator by approximately 80%.

Looking Forward

The District is committed to advocating for its ratepayers and securing a reliable and affordable water supply. To this end, the District is focused on lowering its wholesale water costs by changing the District's wholesale water provider. While this effort will be politically challenging, it has the potential to provide our customers with immediate and substantial rate relief.

The District's organizational chart is shown on the page 10.

Acknowledgments

Management would like to thank the Board of Directors for their leadership and vision guiding the implementation of the highest standards of financial management and securing District's long-term financial sustainability.



Jack Bebee
General Manager

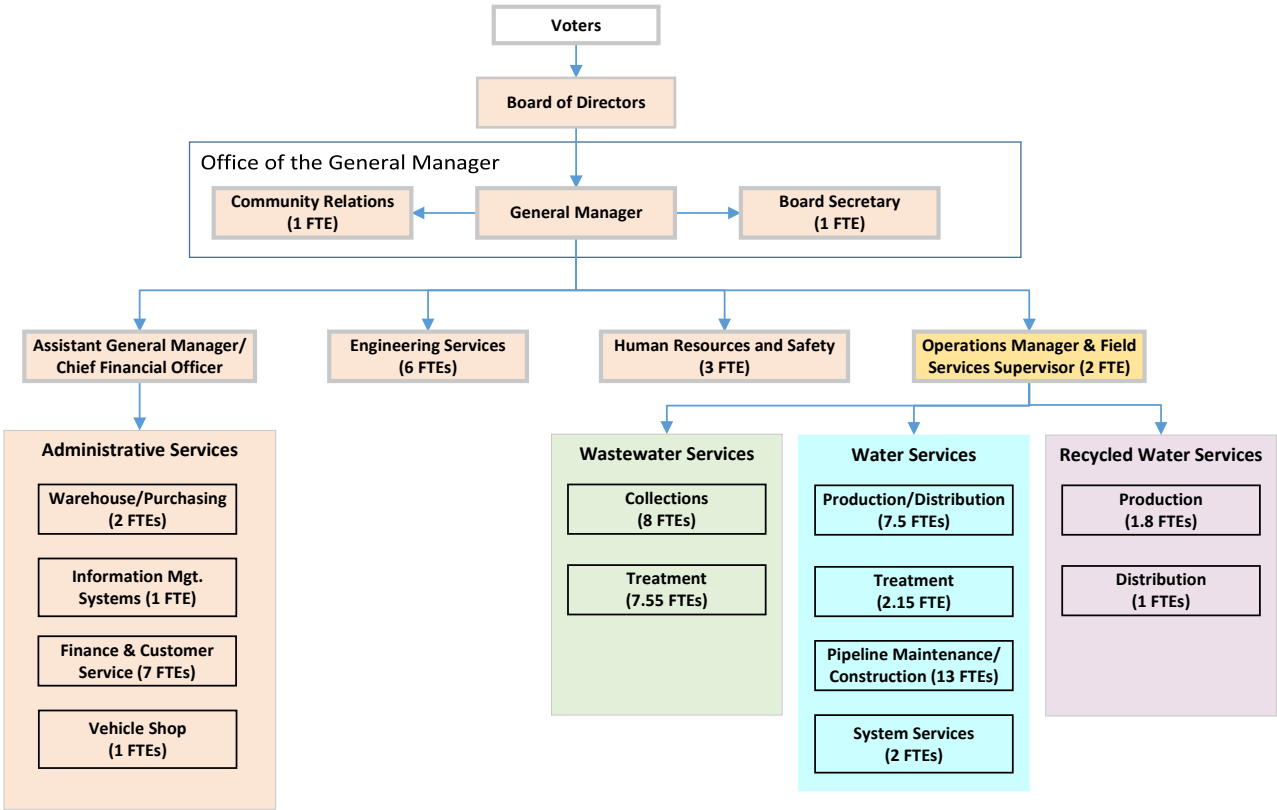


David Shank
Assistant General Manager/CFO



Fiscal Year Organizational Structure (Total FTE 69)

Fiscal Year 2022-2023 Organizational Structure
Total Requested Regular FTE=69



FTE = Full-Time Equivalent



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Presented to

**Fallbrook Public Utility District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Fallbrook Public Utility District
Fallbrook, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Fallbrook Public Utility District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Fallbrook Public Utility District as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Fallbrook Public Utility District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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Board of Directors
Fallbrook Public Utility District

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fallbrook Public Utility District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fallbrook Public Utility District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fallbrook Public Utility District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Fallbrook Public Utility District

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2022 financial statements, and we expressed an unmodified opinion on the financial statements in our report dated November 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Proportionate Share of the Net Pension Liability – Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Fallbrook Public Utility District. The Schedule of Operating Income and Expenses is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Operating Income and Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, statistical section and Continuing Disclosure but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

Board of Directors
Fallbrook Public Utility District

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
November 15, 2023

Management's Discussion and Analysis

This section of the Fallbrook Public Utility District's (District) annual financial report provides management's summary and analysis of the District's financial performance for fiscal year ending June 30, 2023. Management's Discussion and Analysis (MD&A) are broken into the following sections:

- Financial Statement Overview
- Financial Highlights & Analysis
- Capital Assets
- Debt Administration

Interested parties are encouraged to read this section of the District's annual financial report in conjunction with the Letter of Transmittal and the detailed financial statements included in this report.

Financial Statement Overview

The financial statements report information about the District's financial position and result of operations using the accrual basis of accounting, similar to methods used by private sector companies. The statements also present changes in cash balances, and information about both short and long-term activities. This section of the annual report contains three components: Management's Discussion and Analysis, the Basic Financial Statements, and the Notes to the Financial Statements.

The Basic Financial Statements include the following:

- The Statement of Net Position present financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position accounts for the District's activities during the last year. It provides the basis for measuring the relative success in recovering operational costs.
- The Statement of Cash Flows report the District's cash receipts and disbursements during the period, classified into operating, financing, and investing categories.
- The Notes to the Financial Statements provide additional information and present material disclosures required by generally accepted accounting principles that are not otherwise visible in the financial statements. The notes immediately follow the statements.

Financial Highlights

This year the District's net financial position increased 5.4% from the June 30, 2022 balance of \$102,721,982 to the June 30, 2023 balance of \$108,297,538. The District's total assets decreased to \$216,752,080, which is a 0.9% decrease from last year. The decrease in District's assets is being driven by the depreciation of the District's fixed assets, which outweighed the District's addition of fixed assets. Liabilities increased to \$112,045,007 or 4.0% from year ending June 30, 2022 due to changes in the District's CalPERS net pension liability. The increase is related to the risk mitigation actions taken by CalPERS due to the above average investment returns in 2022. The increase in deferred outflows of Resources is driven by changes in the calculation of the pension liability. Of the District's assets, 80.5% are related to infrastructure, which is the largest class of assets.

The District's operating loss decreased from \$5,114,560 in fiscal year ending June 30, 2022 to \$1,335,588 in fiscal year ending June 30, 2023. The decrease was driven by a GASB 68 pension expense decrease of \$5,726,010 that was the result of changes in actuarial assumptions. Overall, the District's

operating revenues decreased 3.6% or from \$32,814,986 to \$31,629,493 in fiscal years ending June 30, 2022 and 2023, respectively. After net non-operating revenues and capital contributions, the District's fiscal year ending June 30, 2023 increase in net position was \$5,575,556. During the past year, the District made contributions to the Pension and OPEB 115 Trust that when combined with investment losses bring the trust balance from \$9,197,828 fiscal year ending June 30, 2022 to \$10,349,994 fiscal year ending June 30, 2023.

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's enterprise fund activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of this year's activities. These two statements report the net position of the District and changes in it. One can think of the District's net position as the difference between assets and deferred outflows of resources (what is owned) and liabilities and deferred inflows of resources (what is owed) and is one way to measure its financial health or financial position.

Fiscal year 2023 compared to Fiscal Year 2022

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam and disinfection facility at the Red Mountain reservoir, an advanced reverse osmosis water treatment plant and other equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant and equipment. Capital assets decreased to \$174,509,824 in fiscal year ending June 30, 2023.

Current assets and liabilities remained flat from fiscal year ending June 30, 2022. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$10,349,994, \$1,173,333 for OPEB and \$9,176,661 for pensions. The District implemented GASB 96 fiscal year ending June 30, 2023. The value of the District's subscription liability on June 30, 2023 was \$37,290.

Net capital assets decreased \$3,098,014 in fiscal year ending June 30, 2023. District wide depreciation in fiscal year ending June 30, 2023 was \$8,997,162. The decrease in net capital assets indicates that the District's capital investments in system assets during fiscal year ending June 30, 2023 were slightly outpaced by the rate of asset depreciation. This was due to a lower than expected level of capital project execution.

The District's total net position increased by \$5,575,556 primarily attributable to the \$8,358,223 in nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and investment income. These along with offsetting nonoperating expenses of \$1,622,947, compensated for the operating loss of \$1,335,588.

Fiscal year 2022 compared to Fiscal Year 2021

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the new groundwater treatment plant, the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Ocean Outfall. Capital assets increased to \$177,607,838 in fiscal year ending June 30, 2022 from \$171,646,876 in fiscal year ending June 30, 2021. The increase in fiscal year ending June 30, 2022 was largely driven by the District's investment in the SMGTP.

Current assets decreased by \$1,746,904 million from fiscal year ending June 30, 2021. The decrease is primarily driven by a decrease in loan proceeds receivable, which are pending SMGTP project reimbursements from the SRF Loan program. The loan proceeds receivable is included in other receivables in the financial statements. The GASB 87 implementation in fiscal year ending June 30, 2022 mitigated the decrease in current assets and increased the District's deferred inflows by \$2,747,528. The deferred inflows increased by \$8,153,025 and \$101,000 due to the performance of the District's pension and OPEB plans. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$9,197,828, \$1,097,214 for OPEB and \$8,100,614, for pensions.

Net capital assets increased \$5,960,962 in fiscal year ending June 30, 2022. District wide depreciation in fiscal year ending June 30, 2022 was \$7,067,780. The increase in net capital assets indicates that the District's capital investments in system assets during fiscal year ending June 30, 2022 outpaced the rate of asset depreciation.

Current liabilities decreased by \$3,826,346 from fiscal year ending June 30, 2021. The driver behind the decrease in current liabilities was a corresponding decrease in accounts payable, which is related to SMGTP project construction related outflows.

The District's total net position decreased by \$1,100,157 due to the mark-to-market losses on the District's investments and a spike in GASB 68 pension costs related to changes in CalPERS actuarially assumptions.

Condensed Statements of Net Position

	June 30, 2023	June 30, 2022	June 30, 2021
Assets			
Unrestricted Current Assets	\$ 26,256,133	\$ 26,273,471	\$ 30,554,990
OPEB and Restricted Assets	13,794,060	12,373,596	13,056,070
Capital Assets, net	174,509,824	177,607,838	171,646,876
Lease Receivable, Net of Current Portion	2,192,063	2,534,615	-
Total Assets	216,752,080	218,789,520	215,257,936
Deferred Outflows of Resources	7,638,677	3,020,909	3,093,115
Liabilities			
Current liabilities	7,445,302	7,512,861	11,318,938
Noncurrent liabilities including Retention Payable	104,599,705	100,234,698	102,870,639
Total Liabilities	112,045,007	107,747,559	114,189,577
Deferred Inflows of Resources	4,048,212	11,340,888	339,335
Net Position			
Net Investment in Capital Assets	84,709,855	84,830,631	83,368,399
Restricted	10,707,799	9,631,081	10,340,855
Unrestricted	12,879,884	8,260,270	10,112,885
Total Net Position	\$ 108,297,538	\$ 102,721,982	\$ 103,822,139

Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
Operating Revenues			
Water	\$ 23,467,210	\$ 25,245,783	\$ 25,429,014
Recycled Water	1,102,493	1,232,350	1,088,163
Wastewater	7,059,790	6,336,853	5,994,424
Total Operating Revenues	31,629,493	32,814,986	32,511,601
Operating Expenses			
Cost of Water	10,716,859	13,245,830	13,955,908
Water Operations	7,769,158	10,369,275	7,366,600
Recycled Water Operations	446,834	626,050	441,490
Wastewater Operations	5,035,068	6,620,611	5,395,914
Operating Expenses Before Depreciation	23,967,919	30,861,766	27,159,912
Operating Income Before Depreciation	7,661,574	1,953,220	5,351,689
Depreciation	8,997,162	7,067,780	6,773,273
Total Operating Expenses Including Depreciation Operating Loss	(1,335,588)	(5,114,560)	(1,421,584)
NonOperating Revenues (Expenses)			
Property Taxes	2,617,564	2,397,429	2,340,185
Capital Improvements Charges	2,838,696	2,650,202	2,604,061
Investment Income	932,974	(1,835,245)	1,543,078
Lease Interest Income	16,496	15,437	-
Water Availability Charges	200,107	202,234	208,842
MWD Local Resource Program	517,280	197,884	-
Lease Revenue	331,006	284,819	251,047
Intergovernmental Revenue-Federal Interest Rate Subsidy	86,153	99,240	112,207
Connection Fees	186,946	193,201	149,650
SDCWA Rate Refund	8,441	839,398	909,413
COVID Relief Grant	-	184,762	-
Water Supply Grant Funds	452,253	213,368	-
Net Gain (Loss) on Disposal of Capital Assets	170,307	36,543	38,100
Community Benefit Program Expense	(96)	-	-
Interest Expense	(1,622,851)	(1,524,767)	(1,665,457)
Total Non-Operating Revenues, Net	6,735,276	3,954,505	6,491,127
Change in Net Position Before Capital Contributions	5,399,688	(1,160,055)	5,069,543
Capital Contributions	175,868	59,898	47,842
Change in Net Position	5,575,556	(1,100,157)	5,117,385

Statements of Revenues, Expenses and Changes in Net Position, Cont.

Net Position - Beginning of Year, As Originally Stated	102,721,982	103,822,139	98,704,754
Prior Period Adjustments	-	-	-
Net Position - Beginning of Year, As Restated	102,721,982	103,822,139	98,704,754
Net position - End of Year	\$ 108,297,538	\$ 102,721,982	\$ 103,822,139

Fiscal year 2023 compared to Fiscal Year 2022

Fiscal year ending June 30, 2023 water revenues were down 7.0% or \$1,778,573 from fiscal year ending June 30, 2022 due to weather related reductions in water sales levels. Wastewater revenues were up 11.4% from fiscal year ending June 30, 2022 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2023 net position. The District's net position increased by \$5,575,556 during fiscal year ending June 30, 2023.

Operating revenue decreased \$1,185,493 primarily due to water sales of 6,297 AF in fiscal year ending June 30, 2023 compared to 7,576 AF during fiscal year ending June 30, 2022. Recycled water sales trended with water sales and decreased to 494 AF as compared to 586 AF in fiscal year ending June 30, 2022. Wastewater revenues increased by \$722,937 from fiscal year ending June 30, 2022. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses decreased by \$4,964,465 from fiscal year ending June 30, 2022. The decrease in operating expense was driven by a \$2,528,971 decrease in the cost of water from fiscal year ending June 30, 2022, due to less water being purchased from SDCWA. Depreciation expense increased by \$1,929,382 from fiscal year ending June 30, 2022 while other operating costs decreased by \$4,364,876. The District's GASB 68 Pension Expense was a \$1,383,517 operating expense credit this year due to changes in the actuarial assumptions of the District's pension obligation.

The District's operating loss of \$1,335,588 when netted against combined nonoperating revenues and expenses of \$6,735,276 results in a \$5,399,688 increase in net position before capital contributions. The District's nonoperating revenues come from six primary sources, property taxes in the amount of \$2,617,564, water and wastewater capital improvement charges in the amount of \$2,838,696, investment income in the amount of \$932,974, water availability charges in the amount of \$200,107, connection fees in the amount of \$186,946 and the Federal Interest Rates Subsidy Payments of \$86,153.

Fiscal year 2022 compared to Fiscal Year 2021

Fiscal year ending June 30, 2022 water sales revenues were down 0.7% or \$183,231 from fiscal year ending June 30, 2021 due to a slight decrease in water sales. Wastewater revenues were up 5.7% from fiscal year ending June 30, 2021 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2022 net position. The District's net position decreased by \$1,100,157 during fiscal year ending June 30, 2022.

Operating revenue increased \$303,385 due to rate increases and higher billable flows. Recycled water sales were slightly up at 586 AF as compared to 557 AF in fiscal year ending June 30, 2021. Wastewater revenues increased by \$342,429 versus fiscal year ending June 30, 2021. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses increased by \$3,996,361 from fiscal year ending June 30, 2021. The increase in operating expense was driven by a \$3,002,675 increase in water operations and a \$1,224,697 increase in wastewater operations from fiscal year ending June 30, 2021. The GASB 68 pension increase for water and wastewater operations was \$1,380,888 and \$606,757, respectively. The increases were driven by changes in the actuarial assumptions of the District's pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon. The District's Depreciation expense increased by \$294,507 from fiscal year ending June 30, 2021.

The District's operating loss of \$5,114,560 when netted against combined nonoperating revenues and expenses of \$3,954,505 results in a \$1,160,055 decrease in net position before capital contributions. The District's nonoperating revenues came from six primary sources, property taxes in the amount of \$2,397,429, water and wastewater capital improvement charges in the amount of \$2,650,202, grant revenue in the combined amount of \$596,014, water availability charges in the amount of \$202,234, connection fees in the amount of \$193,201 and the SDCWA rate refund in the amount of \$839,398. The majority of the grant funds and the SDCWA rate refund are non-recurring revenues.

Supplemental information for each of the three operations divisions can be found on page 74 of this report.

Capital Assets

The District's has implemented an asset management program to improve the system reliability and reduce the number of unscheduled repairs. A critical component of the asset management program is the District's pipeline and valve replacement program. In fiscal year ending June 30, 2023, the District replaced 4,300 feet of pipe and 109 valves. The District's pipeline and valve replacement program's goal is to reduce the replacement cycle of pipelines to 100 years from the previous 400 year replacement cycle. Additional information on the District's capital asset activity can be found at Note 3 of the Notes to the Basic Financial Statements.

June 30, 2023, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Emergency Pipeline Replacement	\$ 600,000	12/31/2023
Lang Reservoir Decommissioning	50,000	8/31/2023
Overland Trail Lift Station Rehabilitation	50,000	12/31/2023
Main Street Sewer Main Replacement	95,000	3/1/2024
Hawthorne Lift Station/Gravity Main	20,000	3/1/2024
Reclamation Plant Storm Water	30,000	8/1/2023
Pipeline Replacement	2,700,000	3/1/2024

Debt Administration

At June 30, 2023, the District had \$89.3 million of long-term debt outstanding. \$2.0 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan, which qualifies for Federal Interest Rate Subsidy payments. The loan was originally for \$7.2 million. An additional \$2.8 million of indebtedness is attributable to the Red Mountain Disinfection Facility SRF loan, which was originally for \$6.16 million. \$17.7 million of indebtedness and \$2.9 million in unamortized premium is attributable to the District's Waste Water Revenue Refunding Bonds, which refunded the District's Wastewater Treatment Plant SRF loan, which was originally for \$29.6 million. The SRF loan for the SMGTP, was approved for \$63.9 million at the end of fiscal year ending June 30, 2022. Scheduled debt service payments (principal and interest) on this loan commence once the project is completed, which is anticipated to occur in the fiscal year 2024. During the year ending June 30, 2023 \$1.0 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 7 to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,625,839	\$ 10,327,128
Investments	10,956,276	7,063,348
Receivables - Water Sales and Services	4,442,273	5,431,116
Accrued Interest Receivable	61,144	32,947
Property Taxes Receivable	45,418	42,166
Lease Receivable, Current Portion	219,700	262,820
Other Receivables	399,671	1,582,499
Inventory	1,405,107	1,460,165
Prepaid Expenses and Other Deposits	100,705	71,282
Restricted Assets:		
Cash and Cash Equivalents	9,816,557	8,812,335
Investments	3,977,503	3,561,261
Total Current Assets	<u>40,050,193</u>	<u>38,647,067</u>
NONCURRENT ASSETS		
Capital Assets:		
Capital Assets, Not Being Depreciated	18,329,634	19,935,557
Capital Assets Being Depreciated, Net	156,180,190	157,672,281
Total Capital Assets, Net	<u>174,509,824</u>	<u>177,607,838</u>
Lease Receivable, Net of Current Portion	2,192,063	2,534,615
Total Noncurrent Assets	<u>176,701,887</u>	<u>180,142,453</u>
 Total Assets	 <u>216,752,080</u>	 <u>218,789,520</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts From Pension	7,217,689	2,740,102
Deferred Amounts From OPEB	420,988	280,807
Total Deferred Outflows of Resources	<u>7,638,677</u>	<u>3,020,909</u>

See accompanying Notes to Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2023
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 2,489,410	\$ 4,325,917
Accrued Wages	147,964	109,004
Construction and Other Deposits	11,203	10,175
Accrued Interest Payable	645,606	646,898
Retention Payable	64,035	77,541
Lease Liability, Current Portion	10,173	20,269
Subscription Liability, Current Portion	37,290	-
Compensated Absences, Current Portion	648,132	581,242
Current Portion of Other Long-Term Debt	3,455,524	1,819,356
Total Current Liabilities	<u>7,509,337</u>	<u>7,590,402</u>
NONCURRENT LIABILITIES		
Health Retirement Account Liability	307,468	378,664
Net OPEB Liability (Asset)	247,383	(19,452)
Net Pension Liability	17,127,503	9,197,303
Lease Liability, Net of Current Portion	-	10,173
Compensated Absences, Net of Current Portion	972,198	871,864
Long-Term Debt - Net of Current Portion	85,881,118	89,718,605
Total Noncurrent Liabilities	<u>104,535,670</u>	<u>100,157,157</u>
Total Liabilities	<u>112,045,007</u>	<u>107,747,559</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts From Pension	1,668,860	8,418,155
Deferred Amounts From OPEB	41,941	175,205
Deferred Amounts From Lease Receivable	2,337,411	2,747,528
Total Deferred Inflows of Resources	<u>4,048,212</u>	<u>11,340,888</u>
NET POSITION		
Net Investment in Capital Assets	84,709,855	84,830,631
Restricted for:		
1958 Annex Projects	1,213,780	1,213,780
Debt Service	317,358	316,687
Pension	9,176,661	8,100,614
Unrestricted	12,879,884	8,260,270
Total Net Position	<u>\$ 108,297,538</u>	<u>\$ 102,721,982</u>

See accompanying Notes to Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)

	2023	2022
OPERATING REVENUES		
Water	\$ 23,467,210	\$ 25,245,783
Recycled Water	1,102,493	1,232,350
Wastewater	7,059,790	6,336,853
Total Operating Revenues	<u>31,629,493</u>	<u>32,814,986</u>
OPERATING EXPENSES		
Cost of Water	10,716,859	13,245,830
Water Operations	7,769,158	10,369,275
Recycled Water Operations	446,834	626,050
Wastewater Operations	5,035,068	6,620,611
Operating Expenses Before Depreciation and Amortization	<u>23,967,919</u>	<u>30,861,766</u>
Operating Income Before Depreciation and Amortization	7,661,574	1,953,220
Depreciation and Amortization	<u>8,997,162</u>	<u>7,067,780</u>
Total Operating Expenses Including Depreciation and Amortization	<u>(1,335,588)</u>	<u>(5,114,560)</u>
NONOPERATING REVENUES (EXPENSES)		
Property Taxes	2,617,564	2,397,429
Capital Improvements Charges	2,838,696	2,650,202
Investment Income	932,974	(1,835,245)
Lease Interest Income	16,496	15,437
Water Availability Charges	200,107	202,234
MWD Local Resource Program	517,280	197,884
Lease Revenue	331,006	284,819
Intergovernmental Revenue - Federal Interest Rate Subsidy	86,153	99,240
Connection Fees	186,946	193,201
SDCWA Rate Refund	8,441	839,398
COVID Relief Grant	-	184,762
Water Supply Grant Funds	452,253	213,368
Gain on Disposal of Capital Assets	170,307	36,543
Community Benefit Program Expense	(96)	-
Interest Expense	<u>(1,622,851)</u>	<u>(1,524,767)</u>
Total Nonoperating Revenues (Expenses)	<u>6,735,276</u>	<u>3,954,505</u>
Changes in Net Position Before Capital Contributions	5,399,688	(1,160,055)
Capital Contributions	<u>175,868</u>	<u>59,898</u>
CHANGE IN NET POSITION	5,575,556	(1,100,157)
Net Position - Beginning of Year	<u>102,721,982</u>	<u>103,822,139</u>
NET POSITION - END OF YEAR	<u><u>\$ 108,297,538</u></u>	<u><u>\$ 102,721,982</u></u>

See accompanying Notes to Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 33,801,164	\$ 32,212,416
Payments for Water	(11,890,421)	(13,159,883)
Payments for Services and Supplies	(5,091,766)	(6,069,694)
Payments for Employee Wages, Benefits and Related Costs	(10,791,442)	(9,705,098)
Net Cash Provided by Operating Activities	6,027,535	3,277,741
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	2,614,312	2,413,788
Net Cash Provided by Noncapital Financing Activities	2,614,312	2,413,788
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Lease Revenues Collected	2,482,128	248,252
Acquisition and Construction of Capital Assets	(6,389,114)	(15,739,839)
Proceeds From Sales of Capital Assets	182,896	36,543
Proceeds of Issuance of Debt	-	11,250,321
Principal Payments on Long-Term Debt	(1,882,878)	(2,168,342)
Interest Paid	(2,006,105)	(1,460,027)
Intergovernmental Revenue - Federal Interest Rate Subsidy	86,153	99,240
Capital Improvement Charges and Connection Fees	3,025,642	2,843,403
Proceeds from SDCWA Rate Rebate	8,441	839,398
Proceeds from Covid Relief Grant	-	184,762
Proceeds from MWD Local Resource Program	517,280	197,884
Water Availability Charges	200,107	202,234
Net Cash Used by Capital and Related Financing Activities	(3,775,450)	(3,466,171)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale (Purchases) of Investments, net	(4,309,170)	(1,853,104)
Interest Received	937,769	(1,003,408)
Net Cash Used by Investing Activities	(3,371,401)	(2,856,512)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,494,996	(631,154)
Cash and Cash Equivalents - Beginning of Year	19,139,463	19,770,617
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,634,459</u>	<u>\$ 19,139,463</u>
FINANCIAL STATEMENT PRESENTATION		
Cash and Cash Equivalents	\$ 8,625,839	\$ 10,327,128
Cash and Cash Equivalents - Restricted Assets	9,816,557	8,812,335
Total Cash and Cash Equivalents	<u>\$ 18,442,396</u>	<u>\$ 19,139,463</u>

See accompanying Notes to Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2022)**

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (1,335,588)	\$ (5,114,560)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	8,997,162	7,067,779
Community Benefit Program Expenses	(96)	-
(Increase) Decrease in:		
Receivables	2,171,671	(602,570)
Inventory	55,058	401,760
Prepaid Expenses And Other Deposits	(29,423)	11,221
Deferred Outflows of Resources	(4,617,768)	72,206
Increase (Decrease) in:		
Accounts Payable	(662,945)	(1,063,147)
Accrued Wages	38,960	(58,281)
HRA Liability	(71,196)	27,414
Net OPEB Obligation	266,835	(224,453)
Net Pension Liability	7,930,200	(5,524,045)
Compensated Absences	167,224	30,392
Deferred Inflows of Resources	(6,882,559)	8,254,025
Net Cash Provided by Operating Activities	<u>\$ 6,027,535</u>	<u>\$ 3,277,741</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in Fair Value of Investments	<u>\$ -</u>	<u>\$ (809,449)</u>
Acquisition and Construction of Capital Assets in Accounts Payable	<u>\$ 351,829</u>	<u>\$ 1,161,705</u>
Capital Assets Contributed	<u>\$ 59,898</u>	<u>\$ 59,898</u>

See accompanying Notes to Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Operations of the District

Fallbrook Public Utility District (District) was incorporated as a political subdivision of the State of California in 1922 and operates under the provisions of the Public Utility District Code as adopted in 1953. The District constructs, operates and maintains facilities to supply water to the town of Fallbrook and the surrounding residential and agricultural areas comprising approximately 27,963 acres, which includes the former De Luz Heights Municipal Water District (annexed in 1990). The District is a member of the San Diego County Water Authority, and as that organization is a member of the Metropolitan Water District of Southern California, the District is entitled to pro rata participation in all water supplies available to those agencies. The District is governed by a Board of Directors consisting of five board members, each of whom is elected to office for a term of four years by registered voters of the District.

In November 1994, the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) dissolved that district and was incorporated into the Fallbrook Public Utility District to provide wastewater services in Fallbrook. The provisions of the dissolution and assumption of services established a separate improvement district to identify the tax base and debt obligations of the former Fallbrook Sanitary District.

Under the terms and conditions of the Local Agency Formation Commission (LAFCO), a San Diego County agency that oversees special districts, the debt of the former Fallbrook Sanitary District, now identified as Improvement District S, existing at the time of the merger was paid from taxes and other revenues raised within the Improvement District "S". The debt of the former De Luz Heights Municipal Water District was also paid from revenues and taxes paid in the De Luz area.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary Fund

The District's activities are reported in an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

The basic financial statements are prepared using the *economic resource measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Proprietary Fund (Continued)

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, delivering water, and collecting, treating and disposing of wastewater in connection with the District's principal ongoing operations. The District's principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

Net Position

The basic financial statements of the Fallbrook Public Utility District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Net Position (Continued)

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets,” or “restricted net position.” As of June 30, 2023, \$545,901 of unrestricted net position is designated for Community Benefit Program.

Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

C. New Accounting Pronouncements

Current Year Standards

GASB 96 – In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The Entity adopted the requirements of the guidance effective July 1, 2022, and has applied the provisions of this standard to the beginning of the period of adoption.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions and other postemployment benefits for employer contributions made after the measurement date of the net pension liability and net other postemployment benefit liability.
- Deferred outflow related to pensions and other postemployment benefits for differences between expected and actual experiences. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions and other postemployment benefits through the Plans.
- Deferred outflow related to pension and other postemployment benefits resulting from the changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and other postemployment benefits through the Plans.
- Deferred outflow related pensions resulting from changes in proportion and differences between employer contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred outflow related to pensions and other postemployment benefits resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. These amounts are amortized over five years.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that will qualify for reporting in this category:

- Deferred inflow related to pensions for differences between expected and actual experiences. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to net other postemployment benefit liability resulting from the changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with net other postemployment benefit liability through the Plan.
- Deferred inflow related to pensions resulting from changes in proportion and differences between employer contributions and proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to lease receivables. This inflow will be recognized as revenue in a systematic and rational manner over the life of the lease.

E. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash, Cash Equivalents, and Investments (Continued)

Investment Valuation

Investments are carried at fair value. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

F. Water Sales

Water sales revenue is recorded when water is delivered and service is rendered, including an estimated amount for unbilled service.

G. Accounts Receivable and Allowance for Doubtful Accounts

The District participates in the County of San Diego's Teeter Plan. Under the Plan, each year in June, the County advances the delinquent accounts receivables amount to the District. The advance is then collected from the taxpayer by the County. The County also receives penalty payments. As a result, the District does not record an allowance for doubtful accounts.

H. Inventory

Inventory consists of water stored at Red Mountain Reservoir and in any of the District's water distribution tanks in the service area, warehouse materials, supplies and equipment necessary to support operations. Inventory is valued at cost using the weighted average cost method. Warehouse materials, supplies and equipment are charged to inventory stores expense when they are issued at the weighted average cost. Water inventory is charged to the cost of water when sold.

I. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses and are recorded utilizing the consumption method.

J. Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are valued at cost when constructed or purchased. Donated assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are reported at acquisition value. The District capitalizes all plant and office equipment with a value of \$5,000 or greater and a useful life of greater than one year. Improvements to existing capital assets are capitalized if they extend the useful life of the asset by three or more years and the cost of the improvement is \$5,000 or greater. Interest costs incurred while constructing capital assets can be capitalized as part of the specific capital assets. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Water Transmission and Distribution System:

Impounding Dams and Reservoirs	50 Years
Pipelines	50 Years
Other	20 to 25 Years

Wastewater Collection System, and Treatment

and Disposal Facilities	20 to 50 Years
Buildings and Structures	45 Years
Equipment	3 to 10 Years

Right-to-use leased assets and subscription assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

L. Lease Receivable

The District measures lease receivable at the present value of lease payments expected to be received during the lease term. Interest revenue is recognized ratably over the contract term.

M. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2023, were as follows:

Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year
\$ 1,453,106	\$ 983,857	\$ (816,633)	\$ 1,620,330	\$ 648,132

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Lease Payable

Lease payable represents the District’s obligation to make lease payments arising from the lease. Lease payable is recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

O. Contributed Capital, Connection Fees and Water Availability Charges (Capacity Fees)

Capital contributions for water and wastewater represent contributions of capital assets from developers and revenues from the California State proposition programs. Capital contributions are recorded in the Statement of Revenues, Expenses and Changes in Net Position at acquisition value at the date the ownership is transferred to the District.

Connection and water availability charges (capacity fees) for water and sewer represent purchases of water meters and fees to connect to the water distribution system or connect to the wastewater collections system by developers or landowners. Connection fees and water availability charges are used strictly for capital improvement.

P. Property Taxes and Assessments

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the San Diego County Tax Collector’s Offices. The San Diego County Tax Collector’s Offices acts as a collection agent for the property taxes which are normally collected twice a year.

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS financial office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS website under Forms and Publications.

S. Other Postemployment Benefits

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2023 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and Cash Equivalents	\$ 8,625,839
Restricted Cash and Cash Equivalents	9,816,557
Investments	10,956,276
Restricted Investments	3,977,503
Total Cash and Investments	<u>\$ 33,376,175</u>

Cash and Investments Consist of the following:

Cash on Hand	\$ 1,300
Deposits with Financial Institutions	1,318,751
Investments	32,056,124
Total Cash and Investments	<u>\$ 33,376,175</u>

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)**Investments Authorized by the California Government Code and the District's Investment Policy**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Quality Requirements (S & P Rating)
U.S. Treasury Obligations	5 Years	No Limitation	No Limitation	No Limitation
Federal Agencies	5 Years	No Limitation	75%	No Limitation
State Obligations	5 Years	25%	5%	A/A-1
Supranationals	5 Years	30%	No Limitation	AA
Banker's Acceptances	180 Days	25%	5%	A-1
Commercial Paper	270 Days	25%	10%	A-1
Negotiable Certificates of Deposit	5 Years	30%	5%	A/A-1
Repurchase Agreements	1 Year	10%	No Limitation	No Limitation
Medium-Term Notes	5 Years	30%	No Limitation	A
Passbook and Money Market Savings Accounts	No Limitation	No Limitation	No Limitation	No Limitation
Local Agency Investment Fund (LAIF)	No Limitation	No Limitation	No Limitation	No Limitation
County Pooled Investment Funds	No Limitation	No Limitation	No Limitation	No Limitation
California Local Agency Obligations	5 Years	25%	5%	A/A-1
Joint Powers Authority Pool	No Limitation	No Limitation	No Limitation	No Limitation
Money Market Mutual Funds	No Limitation	20%	No Limitation	AAA
Mortgage Pass-Through Securities	5 Years	20%	No Limitation	AA

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Disclosures Relating to Interest Rate Risk

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

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)**Disclosures Relating to Interest Rate Risk (Continued)**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2023.

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund (LAIF)	\$ 6,567	\$ 6,567	\$ -	\$ -
California Asset Management Program (CAMP)	7,939,117	7,939,117	-	-
Asset Backed Securities	1,169,555	-	-	1,169,555
Medium-Term Notes	3,134,251	141,841	605,460	2,386,950
Municipal Bonds	139,653	-	-	139,653
U.S. Agency Securities	94,485	94,485	-	-
U.S. Treasury Securities	9,730,710	194,094	3,414,340	6,122,276
Federal Agency Collateralized Mortgage Obligations	665,125	-	190,455	474,670
PARS Pooled Trust - Pension Trust	9,176,661	9,176,661	-	-
Total	\$ 32,056,124	\$ 17,552,765	\$ 4,210,255	\$ 10,293,104

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the Standard & Poor's (S&P) rating for each investment type at June 30, 2023.

Investment Type	Total	Minimum Legal Rating*	Ratings as of Year End					
			Exempt from Disclosure	AAA	AA/AA-/AA+	A/A-/A+	BBB+	Not Rated
Local Agency Investment Fund (LAIF)	\$ 6,567	Exempt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,567
California Asset Management Program (CAMP)	7,939,117	AAA	-	7,939,117	-	-	-	-
Asset Backed Securities	1,169,555	A	-	1,135,905	-	-	-	33,650
Medium-Term Notes	3,134,251	A	-	-	359,381	2,357,234	417,636	-
Municipal Bonds	139,653	A/A-1	-	-	139,653	-	-	-
U.S. Agency Securities	94,485	N/A	-	-	94,485	-	-	-
U.S. Treasury Securities	9,730,710	Exempt	9,730,710	-	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	665,125	AA	-	-	665,125	-	-	-
PARS Pooled Trust - Pension Trust	9,176,661	Exempt	9,176,661	-	-	-	-	-
Total	\$ 32,056,124		\$ 18,907,371	\$ 9,075,022	\$ 1,258,644	\$ 2,357,234	\$ 417,636	\$ 40,217

* Required to be rated accordingly by at least one Nationally Recognized Statistical Rating Organization (NRSRO)

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The District holds no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2023.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023, the District's deposits with financial institutions (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California law.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Investments measured at cost or net asset value (NAV) are not subject to fair value measurement hierarchy. The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)**Fair Value Measurements (Continued)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

	Quoted Prices (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	June 30, 2023
Investments by Fair Value Level:				
Asset Backed Securities	\$ -	\$ 1,169,555	\$ -	\$ 1,169,555
Medium-Term Notes	-	3,134,251	-	3,134,251
Municipal Bonds	-	139,653	-	139,653
U.S. Agency Securities	-	94,485	-	94,485
U.S. Treasury Securities	-	9,730,710	-	9,730,710
Federal Agency Collateralized Mortgage Obligations	-	665,125	-	665,125
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 14,933,779</u>	<u>\$ -</u>	<u>\$ 14,933,779</u>
Investments Measured at Cost or Net Asset Value (NAV):				
Local Agency Investment Fund (LAIF)				6,567
California Asset Management Program (CAMP)				7,939,117
PARS Pooled Trust - Pension Trust				9,176,661
Total Investments at Cost or Net Asset Value (NAV)				<u>17,122,345</u>
Total Investments				<u>\$ 32,056,124</u>

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 3 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2023 were as follows:

	Balance June 30, 2022	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2023
Capital Assets, Not Being Depreciated:					
Land and Property Rights-Water	\$ 11,704,070	\$ -	\$ (10,027)	\$ -	\$ 11,694,043
Land and Property Rights-Wastewater	1,128,164	-	-	-	1,128,164
Construction In Progress	7,103,323	5,445,539	-	(7,041,435)	5,507,427
Total Capital Assets, Not Being Depreciated	19,935,557	5,445,539	(10,027)	(7,041,435)	18,329,634
Capital Assets, Being Depreciated:					
Water Operations:					
Impounding Dam	35,041,584	-	-	37,939	35,079,523
Distribution System	66,215,242	-	-	5,370,729	71,585,971
Buildings and Structures	60,315,819	-	(6,936)	490,999	60,799,882
Equipment	10,907,457	196,557	(34,192)	20,792	11,090,614
Subscription Asset	80,542	-	-	-	80,542
Right of Use Lease Asset - Equipment	50,630	-	-	-	50,630
Total Water Operations	172,611,274	196,557	(41,128)	5,920,459	178,687,162
Wastewater Operations:					
Collection System	13,688,991	-	-	367,545	14,056,536
Treatment And Disposal Facilities	60,958,010	-	-	326,481	61,284,491
Equipment	882,918	189,099	-	97,307	1,169,324
Total Wastewater Operations	75,529,919	189,099	-	791,333	76,510,351
Recycle Operations:					
Distribution System	4,673,586	-	(2,371)	329,643	5,000,858
Total Recycle Operations	4,673,586	-	(2,371)	329,643	5,000,858
Total Capital Assets Being Depreciated	252,814,779	385,656	(43,499)	7,041,435	260,198,371
Less Accumulated Depreciation for:					
Impounding Dam	(18,643,718)	(1,431,903)	-	-	(20,075,621)
Systems and facilities	(65,540,963)	(4,828,764)	-	-	(70,369,727)
Building and Structures	(3,879,567)	(1,910,537)	6,745	-	(5,783,359)
Equipment	(6,977,136)	(759,106)	34,192	-	(7,702,050)
Less Accumulated Amortization for:					
Subscription Asset	-	(46,280)	-	-	(46,280)
Right of Use Lease Asset - Equipment	(20,572)	(20,572)	-	-	(41,144)
Total Accumulated Depreciation and Amortization	(95,061,956)	(8,997,162)	40,937	-	(104,018,181)
Total Capital Assets Being Depreciated, Net	157,752,823	(8,611,506)	(2,562)	7,041,435	156,180,190
Total Capital Assets, Net	\$ 177,688,380	\$ (3,165,967)	\$ (12,589)	\$ -	\$ 174,509,824

NOTE 4 LEASE RECEIVABLE

The District, acting as lessor, leases several real properties for cell towers under long-term, noncancelable lease agreements. The leases expire at various dates through 2043 and provide various renewal options ranging from three months to five years. During the year ended June 30, 2023, the City recognized \$331,006 and \$16,496 in lease revenue and interest revenue, respectively, pursuant to these contracts. Certain leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 4 LEASE RECEIVABLE (CONTINUED)

Total future minimum lease payments to be received under lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 219,700	\$ 13,077	\$ 232,777
2025	226,019	11,760	237,779
2026	232,472	10,405	237,779
2027	209,645	9,072	242,877
2028	200,865	7,930	208,795
2029-2033	748,606	25,231	773,837
2034-2038	504,515	8,239	512,754
2039-2043	69,941	183	70,124
Total	<u>\$ 2,411,763</u>	<u>\$ 85,897</u>	<u>\$ 2,516,722</u>

NOTE 5 LEASE LIABILITY

The District leases a Konica Printer under a long-term, noncancelable lease agreement. The lease expires in 2024. An initial lease liability was recorded in the amount of \$50,630 for the use of the Konica Printer. As of 06/30/2023, the value of the lease liability is \$10,173. The District is required to make monthly fixed payments of \$1,698. The lease has an interest rate of 0.5060. Total lease payment of \$10,185 under lease agreements is due in fiscal year 2024.

NOTE 6 SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The District The Entity has entered into subscription based-information technology arrangements (SBITAs) for use of several information technology. The SBITA arrangements expire at various dates through 2024 and provide for renewal options. As of 06/30/2023, the value of the subscription liability is \$37,290. Total subscription payment of \$37,411 under SBITA agreements is due in fiscal year 2024.

NOTE 7 LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2023 were as follows:

	<u>Balance June 30, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2023</u>	<u>Due Within One Year</u>
Red Mountain State Revolving Fund Loan	\$ 3,162,524	\$ -	\$ (316,574)	\$ 2,845,950	\$ 324,764
Qualified Energy Conservation Revenue Bonds	2,428,971	-	(387,783)	2,041,188	410,387
State Water Resources Control Board Loan	63,916,954	-	-	63,916,954	1,600,373
2021 Wastewater Revenue Refunding Bonds Series A	14,845,000	-	-	14,845,000	-
2021 Wastewater Revenue Refunding Bonds Series B	3,925,000	-	(1,115,000)	2,810,000	1,120,000
Unamortized Premium on 2021 Revenue Bonds	3,259,512	-	(381,962)	2,877,550	-
Total Long-Term Debt	<u>\$ 91,537,961</u>	<u>\$ -</u>	<u>\$ (2,201,319)</u>	<u>\$ 89,336,642</u>	<u>\$ 3,455,524</u>

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 LONG-TERM DEBT (CONTINUED)**Red Mountain State Revolving Fund Loan**

On June 21, 2010, The District entered into a loan agreement with the State of California Department of Public Health with interest at 2.57% payable semi-annually, and principal payments ranging from \$118,751 to \$195,414 due semi-annually beginning July 1, 2011 through January 1, 2031. The proceeds of the loan assisted the District in financing construction of the Red Mountain UV Filtration Plant, which enabled the District to meet the Federal safe drinking water standards. This standard is incorporated into the Long-Term Two Enhanced Surface Water Treatment Rule (LT2). Future debt service requirements for the loan are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 324,764	\$ 71,087	\$ 395,851
2025	333,166	62,685	395,851
2026	341,786	54,065	395,851
2027	350,629	45,223	395,852
2028	359,700	36,151	395,851
2029-2031	1,135,905	51,645	1,187,550
Total	<u>\$ 2,845,950</u>	<u>\$ 320,856</u>	<u>\$ 3,166,806</u>

Qualified Energy Conservation Bonds (QECCB) Solar Loan

On November 18, 2010, the District borrowed \$7,227,000 from the California Alternative Energy and Advanced Transportation Financing Authority, the proceeds of which were used to finance the construction of a solar project. Financing was secured at an interest rate of 5.74%. The Federal government will pay 70% of the Tax Credit Rate, which is 5.56% or 3.89%. The District's applicable interest rate is the difference between the taxable rate and the Federal Direct Pay rate, equivalent to 1.85% interest with principal payments ranging from \$134,593 to \$317,071 until November 18, 2027.

Future debt service requirements for the loan are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 410,387	\$ 111,302	\$ 521,689
2025	433,953	87,409	521,362
2026	458,515	62,150	520,665
2027	484,114	35,465	519,579
2028	254,219	7,296	261,515
Total	<u>\$ 2,041,188</u>	<u>\$ 303,622</u>	<u>\$ 2,344,810</u>

State Water Resources Control Board Loan

On August 28, 2019, the District entered into an agreement with the State Water Resources Control Board for a Drinking Water State Revolving Fund Loan to finance the construction of the Santa Margarita Conjunctive Use Project water treatment plant. The maximum loan amount was \$53,334,000 with interest at 1.9%. On January 31, 2020, the SWRCB increased the original loan approval to \$63,916,954. The District's annual repayment, including principal and interest, is \$2,763,723. The repayment term is 30 years, maturing on March 1, 2053. Total proceeds from the loan were \$62,757,217.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 LONG-TERM DEBT (CONTINUED)**State Water Resources Control Board Loan (Continued)**

Future debt service requirements for the loan payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,600,373	\$ 1,214,422	\$ 2,814,795
2025	1,630,780	1,184,015	2,814,795
2026	1,661,765	1,153,030	2,814,795
2027	1,693,339	1,121,456	2,814,795
2028	1,725,512	1,089,283	2,814,795
2029-2033	9,131,969	4,942,007	14,073,976
2034-2038	10,033,104	4,040,871	14,073,975
2039-2043	11,023,163	3,050,812	14,073,975
2044-2048	12,110,921	1,963,055	14,073,976
2049-2053	13,306,028	767,958	14,073,986
Total	<u>\$ 63,916,954</u>	<u>\$ 20,526,909</u>	<u>\$ 84,443,863</u>

2021 Wastewater Revenue Refunding Bonds

On January 27, 2021, the District issued Wastewater Revenue Refunding Bonds, Series 2021A in the amount of \$14,845,000 and Series 2021B in the amount of \$5,035,000 for the purpose of refunding \$24,668,470 of the outstanding balance of the funds borrowed from the California State Water Resources Control Board in November 2012 and again in September 2013 for the purpose of assisting the District in funding costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project which was completed in May 2016. The 2021A bonds were issued with an original issue premium of \$3,806,332, which will be amortized over the life of the bonds. The Series 2021A bonds mature annually from September 1, 2025 to September 1, 2035 with an interest rate of 4%. The Series 2021B bonds mature annually from September 1, 2021 to September 2025 with interest rates between .297% and 1.012%. The Series 2021A bonds maturing on or after September 1, 2032 are subject to option redemption. The Series 2021B bonds are not subject to option redemption.

The District has pledged all of the Net System Revenues derived from the operation of its wastewater systems for the debt service payment of the bond. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each fiscal year which are sufficient to yield Net Revenues which are at least equal to 100% of all operation and maintenance costs and all payments required to be payable from gross revenues and 120% of principal and interest of the bonds and any parity debt for each fiscal year.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 LONG-TERM DEBT (CONTINUED)**2021 Wastewater Revenue Refunding Bonds (Continued)**

Future debt service requirements for loan payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,120,000	\$ 610,746	\$ 1,730,746
2025	1,130,000	603,575	1,730,746
2026	1,145,000	584,934	1,733,575
2027	1,185,000	546,700	1,729,934
2028	1,230,000	498,400	1,728,400
2029-2032	5,450,000	1,470,200	6,920,200
2033-2036	6,395,000	524,300	6,919,300
Total	<u>\$ 17,655,000</u>	<u>\$ 4,838,855</u>	<u>\$ 22,492,901</u>

NOTE 8 INVENTORY

Inventory at June 30, 2023 consisted of the following:

Water Inventory	\$ 395,742
Materials Inventory	1,009,365
Total	<u>\$ 1,405,107</u>

NOTE 9 PENSION PLANS**A. General Information about the Pension Plan**Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 PENSION PLANS (CONTINUED)Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for nonindustrial disability benefits after five (5) years of service. The death benefit is one of the following: the basic death benefit or the 2W death benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Employees are eligible for service-related disability benefits regardless of length of service. An employee must be actively employed by the District at the time of disability in order to be eligible for this benefit. Disability benefits are determined by the products of 1.8 percent of final compensation and the factor of years of service. The basic death benefit is a lump sum in the amount of the member's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

The Plans' provisions and benefits in effect at June 30, 2022 measurement date, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2.5% @ 55	2% @ 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 - 63	52 - 67
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.5%	1.0% to 2.5%
Required Employee Contribution Rates	8%	6.50%
Required Employer Contribution Rates:		
Normal Cost Rate	13.020%	7.760%
Payment of Unfunded Liability	\$ 1,234,631	\$ 8,587

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 PENSION PLANS (CONTINUED)

A. General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

Supplemental Plan Funding

In Fiscal year ended June 30, 2017, the District entered into a Section 115 Trust (Trust) agreement with the Public Agency Retirement Services (PARS), as the trust administrator and U.S. Bank National Association (US Bank) as the trustee. The Trust funds are available to the District to pay for pension related expenditures or reduce pension liabilities. On June 30, 2022, the fair value of the funds held in the trust account was \$9,176,661. When evaluating the District's pension funding level these funds should be taken into account.

As of June 30, 2023, Fallbrook Public Utility District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 17,127,503</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The Districts' proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 PENSION PLANS (CONTINUED)**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

The Fallbrook Public Utility District's proportionate share of the net pension liability as of the measurement dates ended June 30, 2021 and 2022 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2021	0.48437%
Proportion - June 30, 2022	0.36603%
Change - Increase (Decrease)	-0.11834%

For the year ended June 30, 2023, the District recognized pension expense of \$1,383,517; of which \$913,121 pertains to water operations, \$69,176 pertains to recycled water operations, and \$401,220 pertains to wastewater and operations. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 1,913,165	\$ -
Differences Between Actual and Expected Experience	343,954	(230,365)
Change in Assumptions	1,755,071	-
Change In Employer's Proportion and Differences Between The Employer's Contributions And The Employer's Proportionate Share of Contributions	68,195	(1,438,495)
Net Differences Between Projected and Actual Earnings on Plan Investments	3,137,304	-
Total	<u>\$ 7,217,689</u>	<u>\$ (1,668,860)</u>

\$1,913,165 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 749,350
2025	627,469
2026	339,963
2027	1,918,883
2028	-
Thereafter	-
Total	<u>\$ 3,635,665</u>

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2022 measurement period was determined by an actuarial valuation as of June 30, 2021, with update procedures to roll forward the total pension liability to June 30, 2022. The total pension liability was based on the following:

	Miscellaneous
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	(1)
Mortality Rate Table	(2)
Postretirement Benefit Increase	(3)

- (1) Varies by entry age and service
- (2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.
- (3) Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short- term and long-term market return expectations. Using historical returns all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 PENSION PLANS (CONTINUED)**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**Long-Term Expected Rate of Return (Continued)

The expected real rates of return by asset class are as follows:

Asset Class ⁽¹⁾	New Strategic Allocation	Real Return Real Return (a) (b)	Real Return Years 11+ ^(3,4)
Global Equity	30.00 %	4.54%	5.98%
Global Equity - Non-Cap-Weighted	12.00	3.84%	2.62%
Private Equity	13.00	7.28%	1.81%
Treasury	5.00	0.27%	7.23%
Mortgage-Backed Securities	5.00	0.50%	4.93%
Investment Grade Corporates	10.00	1.56%	-0.92%
High Yield	5.00	2.27%	
Emerging Market Debt	5.00	2.48%	
Private Debt	5.00	3.57%	
Real Assets	15.00	3.21%	
Leverage	(5.00)	-0.59%	
Total	100.00 %		

(a) An expected inflation of 2.30% used for this period.

(b) Figures are based on the 2021 Asset Liability Management study

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Assumptions

The discount rate and long-term rate of return decreased from 7.15% to 6.90% and the inflation rate decreased from 2.50% to 2.30% from the measurement date June 30, 2021 to June 30, 2022.

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 PENSION PLANS (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability of each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>Miscellaneous Plan</u>
1% Decrease	5.90%
Net Pension Liability	\$ 25,177,884
Current Discount Rate	6.90%
Net Pension Liability	\$ 17,127,505
1% Increase	7.90%
Net Pension Liability	\$ 10,504,041

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2023, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District administers its Public Agencies Post-Employment Health Care Plan (OPEB Plan), an agent multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions. The District’s OPEB Plan provides continued medical dental, and vision coverage for an eligible retired employee, spouse or legal dependent. Coverage will continue for the retiree and spouse or legal dependent until they become entitled to Medicare Benefits at age 65.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description (Continued)

Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee's monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree's medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District's health reimbursement account (HRA) balance as of June 30, 2023 is \$304,238. The District will pay for half (50%) of the retired employee's monthly premium.

During the year ended June 30, 2017, the District entered into a trust agreement with Public Agency Retirement Services (PARS), as the trust administrator and U.S. Bank National Association (US Bank) as the trustee. Management of the OPEB Plan is vested with the General Manager of the District with oversight and governance by the District's Finance Committee. Benefit terms are as established by the District's board of directors and agreed upon between the District and the Fallbrook Public Utility District Employees' Association through Memorandum of Understanding. The PARS OPEB Trust issues a publicly available financial report for the fiduciary net position that is available upon request. On June 30, 2023, the PARS OPEB account's fair value was \$1,173,333.

Employees Covered

As of the June 30, 2022 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	Number of Participants
Inactive Employees Currently Receiving Benefits	13
Participating Active Employees	59
Total	<u>72</u>

Contributions

Benefit provisions and contribution requirements of plan members and the District are established and may be amended by the District. The plan does not require employee contributions. Administrative costs of this plan are financed through investment earnings. For the fiscal year ended June 30, 2023, total contributions of 124,924 consists of \$48,590 in premium payments made by the District outside of the trust and implicit subsidy of \$76,334.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age, Level Percent of Pay
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Projected Salary Increase	3.0% per year
Expected Long-Term Investment Rate of Return, Net of Plan Investment Expense	6.00%
Healthcare Cost Trend Rates	6.50 percent for 2022, 6.00 percent for 2023, 5.50 percent for 2024, 5.25 percent for 2059-2029, 5.00 percent for 2030-2039, 4.75 percent for 2040-2049, 4.50 percent for 2050-2069, and 4.00 percent for 2070 and later years; Medicare ages: 4.50 percent for 2022-2029 and 4.00 percent for 2030 and later years.
Mortality	Preretirement Mortality Rates for Public Agency Miscellaneous from 2021 CalPERS Experience Study. Postretirement Mortality Rates for Public Agency Miscellaneous from 2021 CalPERS Experience Study.

Investment Policy

The OPEB Plan has an established investment guidelines policy document which provides a framework for a well-diversified asset mix that can potentially be expected to meet the trusts short and long-term needs consistent with the District's investment objectives, liquidity considerations and risk tolerance. The investment guidelines facilitate the process of ongoing communication between the District and the plan fiduciaries and help maintain a long-term perspective when market volatility is caused by short-term market movements. As the trustee, US Bank has delegated investment authority to Highmark Capital Management (Highmark) as the investment manager. Highmark has full investment discretion over the managed assets in the trust and is authorized to purchase, sell, exchange, invest, reinvest, and manage the OPEB Plan assets in accordance with the trust's investment objectives.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Investment Policy (Continued)

The goal of the trust's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the OPEB Plan. The following objectives are intended to assist in achieving this goal:

- The OPEB Plan assets should earn, on a long-term average basis, a rate of return equal to or more than the target rate of return of 6.0%;
- The OPEB Plan trust should seek to earn a return more than its policy benchmark over the long-term;
- The OPEB Plan assets will be managed on a total return basis which considers both investment income and capital appreciation. As the plan sponsor the District recognizes the importance of preservation of capital, but also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve the objectives above, the District has established an asset allocation which strives for the growth of income and principal with a strategic, long-term perspective of the capital markets. With a moderate risk tolerance, the following table summarizes the District's OPEB Plan trust asset allocation policy:

Asset Class	Strategic Allocation	Real Rate of Return
Fixed Income	50%	1.8%
Equity	50%	4.4%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected OPEB payments of current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**Changes in the Net OPEB Liability**

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2021, (Measurement Date)	\$ 1,246,820	\$ 1,266,272	\$ (19,452)
Changes in the Year:			
Service Cost **	64,523	-	64,523
Interest on the Total OPEB Liability	75,172	-	75,172
Differences Between Actual and Actual Experience	-	-	-
9,047	9,047	-	9,047
Changes in Assumptions	67,709	-	67,709
Contribution - Employer	-	118,674	(118,674)
Net Investment Income	-	(162,270)	162,270
Administrative Expenses	-	(6,788)	6,788
Benefit Payments	(118,674)	(118,674)	-
Net Changes	97,777	(169,058)	266,835
Balance at June 30, 2022 (Measurement Date),	\$ 1,344,597	\$ 1,097,214	\$ 247,383

** - Service Cost - The actuarial present value of projected benefits payments that are attributed to the valuation year.

Change of Assumptions

Healthcare trend rate assumptions increased 1% (from 5.5% to 6.5%).

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.00%) or 1-percentage point higher (7.00%) than the current discount rate:

	1% Decrease (5.0%)	Discount Rate (6.0%)	1% Increase (7.0%)
Net OPEB Liability	\$ 337,908	\$ 247,383	\$ 163,034

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.50% decreasing to 3.00%) or 1 percentage point higher (7.50% decreasing to 5.00%), than the current healthcare cost trend rates:

	1% Decrease ²	Trend Rates	1% Increase ³
Net OPEB Liability	\$ 134,513	\$ 247,383	\$ 378,205

² Trend rate for each future year reduced by 1.00%.

³ Trend rate for each future year reduced by 1.00%.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the District recognized OPEB expense of \$118,314. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to the Measurement Date	\$ 124,924	\$ -
Differences Between Actual and Expected Experience	128,324	-
Change in Assumptions	65,088	(41,941)
Differences Between Projected and Actual Earnings	102,652	-
Total	<u>\$ 420,988</u>	<u>\$ (41,941)</u>

\$124,924 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024.

FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
(Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 49,198
2025	49,598
2026	41,328
2027	69,549
2028	20,631
Thereafter	23,819

Payable to the OPEB Plan

At June 30, 2023, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2023.

NOTE 11 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), which arranges for and provides for various insurance programs to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence.

At June 30, 2023, the District participated in ACWA/JPIA as follows:

Liability – General, Auto & Public Officials Errors & Omissions – ACWA/JPIA pools for the first \$5 million and purchases excess coverage up to \$55 million per occurrence, except terrorism \$5 million, PFAS \$29.5 million, subsidence \$45 million, lead \$45 million, and mold \$45 million.

Cyber Liability – Insured through Indian Harbor Insurance Company, with coverage limits of \$5 million per claim and \$5 million in the aggregate.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 11 RISK MANAGEMENT (CONTINUED)

Property Program – ACWA/JPIA pools for the first \$100,000 and purchases excess coverage up to \$500 million, except for Boiler & Machinery \$100 million per occurrence, Earthquake \$2,500,000 program aggregate and Flood \$25 million. Deductibles are \$10,000 for real and personal property, \$10,000 for mobile equipment, licensed vehicles/trailers, \$25,000 for boiler and machinery, except \$50,000 if Turbine or Power Generation equipment, 5% of total insurable values for earthquake and \$100,000 for flood.

Crime Program – coverage limit of \$100,000 per loss, with a \$1,000 deductible.

Workers' Compensation and Employer's Liability Program – Workers' Compensation coverage limit up to California Statutory Limits. Employer's Liability coverage limit \$4 million program aggregate.

Dam Failure Liability – For Red Mountain Dam. Coverage limit of \$4 million per occurrence.

During the past four years, there have been no instances where the amount of claims settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

NOTE 12 COMMITMENTS AND CONTINGENCIES**Construction Commitments**

At June 30, 2023, the District had the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Completion Date</u>
Emergency Pipeline Replacement	\$ 600,000	December 2023
Lang Reservoir Decommissioning	50,000	August 2023
Overland Trail Lift Station	50,000	December 2023
Main Street Sewer Main Replacement	95,000	March 2024
Hawthorne Life Station	20,000	March 2024
Rec Plant Storm Water	30,000	August 2023
Pipeline Replacement	2,700,000	March 2024

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. The District has (a) determined that it has no litigation pending with service of process completed which would have a material effect on its financial condition and (b) believes, to its current actual knowledge and after due inquiry and consultation with legal counsel, that no litigation has been threatened against the District in any court which would have a material effect on its financial condition.

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 13 SEGMENT INFORMATION

The District reports one overall activity on its financial statements, however the District's identifiable activities include water services, recycled water services and wastewater services. On January 11, 2021 The District issued Wastewater Revenue Refunding Bonds (see note 5). The District has pledged all of the Net System Revenues derived from the operation of its wastewater systems for the debt service payment of the bond. For the purposes of reporting below the wastewater activity has been identified as a segment. Condensed information for the wastewater activity segment as of and for the period ended June 30, 2023 are as follows:

Condensed Statement of Net Position

Current Assets	\$ 5,294,884
Capital Assets	43,616,584
Other Assets and Deferred Outflows of Resources	<u>2,215,215</u>
Total Assets and Deferred Outflows of Resources	51,126,683
Current Liabilities	926,051
Long Term Debt	22,573,738
Net Pension and OPEB Liabilities	5,038,717
Deferred Inflows of Resources	<u>496,132</u>
Total Liabilities and Deferred Inflows of Resources	<u>29,034,638</u>
Net Investment in Capital Assets	21,042,846
Unrestricted	<u>1,049,199</u>
Net Position	<u><u>\$ 22,092,045</u></u>

**FALLBROOK PUBLIC UTILITY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 13 SEGMENT INFORMATION (CONTINUED)**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

Operation Revenues	
Wastewater	\$ 7,059,790
Total Operating Revenues	<u>7,059,790</u>
Operating Expenses	
Operations and Maintenance	2,484,939
Administrative and General	2,550,129
Depreciation Expenses	2,904,667
Total Operating Expenses	<u>7,939,735</u>
Nonoperating Revenues (Expenses) and Transfers	
Property Taxes	1,199,210
Capital Improvements Charges	1,241,192
Investment Income	137,514
Other Revenues	162,183
Interest Expense	(365,345)
Transfers	414,307
Total Nonoperating Revenues (Expenses)	<u>2,789,061</u>
Changes in Net Position	1,909,116
Net Position - Beginning of Year	20,182,929
Net Position - End of Year	<u><u>\$ 22,092,045</u></u>

Condensed Statement of Cash Flows

Cash Flows from Operating Activities	\$ 1,501,042
Cash Flows from Noncapital Financing Activities	1,199,210
Cash Flows from Capital and Related Financing Activities	(2,022,245)
Cash Flows from Investing Activities	<u>47,824</u>
Net Increase in Cash and Cash Equivalents	725,831
Cash and Cash Equivalents, Beginning of the Year	3,581,212
Cash and Cash Equivalents, End of the Year	<u><u>\$ 4,307,043</u></u>

NOTE 14 SUBSEQUENT EVENT

In 2019, the District began the process to detach from the San Diego County Water Authority and annex into the service area of Easter Municipal Water District (EMWD). The detachment process was managed by the Local Agency Formation Commission (LAFCO) of San Diego County and on July 10, 2023 LAFCO approved the detachment pending a vote of the District's rate payers. On November 7, 2023, the District's rate payers approved. The District is in the process of executing a Memorandum of Understanding to annex into EMWD's service area that was approved on August 7, 2019. These administrative actions are expected to be completed next fiscal year.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
DEFINED BENEFIT PENSION PLANS
FOR THE LAST TEN FISCAL YEARS***

Fiscal Year-End	6/30/2023	6/30/2022	6/30/2021	6/30/2020
Measurement Date	6/30/2022	6/30/2021	6/30/2020	6/30/2019
Classic & PEPRA Miscellaneous Plan				
Plan's Proportion of the Net Pension Liability	0.48437%	0.48437%	0.34901%	0.13301%
Plan's Proportionate Share of the Net Pension Liability	\$ 17,217,505	\$ 9,197,304	\$ 14,721,348	\$ 13,629,333
Covered Payroll	\$ 5,694,940	\$ 5,394,615	\$ 5,448,979	\$ 5,179,369
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	302.33%	170.49%	270.17%	263.15%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.49%	83.49%	72.50%	75.26%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 1,708,723	\$ 1,828,758	\$ 1,733,944	\$ 1,640,356

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019

There were no changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020

There were no changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021

There were no changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022

There were no changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023

The discount rate was reduced from 7.15% to 6.90%

* Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
DEFINED BENEFIT PENSION PLANS (CONTINUED)
FOR THE LAST TEN FISCAL YEARS***

Fiscal Year-End	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Measurement Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Classic & PEPRA Miscellaneous Plan					
Plan's Proportion of the Net Pension Liability	0.13015%	0.12853%	0.12729%	0.12295%	0.11351%
Plan's Proportionate Share of the Net Pension Liability	\$ 12,541,929	\$ 12,746,294	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Covered Payroll	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842	\$ 4,683,594
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	240.41%	241.82%	232.19%	177.52%	147.07%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%	73.31%	74.06%	78.40%	83.21%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 1,410,070	\$ 1,335,205	\$ 1,234,176	\$ 1,177,856	\$ 1,014,669

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019

There were no changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020

There were no changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021

There were no changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022

There were no changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023

The discount rate was reduced from 7.15% to 6.90%

* Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS
FOR THE LAST TEN FISCAL YEARS***

	2023	2022	2021	2020
Contribution Deficiency (Excess)	\$ 1,913,165	\$ 1,708,723	\$ 1,548,933	\$ 1,407,555
Contributions in Relation to the Actuarially Determined Contributions	<u>1,913,165</u>	<u>1,708,723</u>	<u>1,548,933</u>	<u>1,407,555</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 6,204,036	\$ 5,694,940	\$ 5,394,615	\$ 5,448,979
Contributions as a Percentage of Covered Payroll	30.84%	30.00%	28.71%	25.83%

Notes to Schedule:

Valuation Date	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:				
Actuarial Cost Method	Entry age	Entry age	Entry age	Entry age
Amortization Method	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.300%	2.500%	2.500%	2.625%
Salary Increases	(2)	(2)	(2)	(2)
Investment Rate of Return	6.90% (3)	7.00% (3)	7.00% (3)	7.25% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
(2) Depending on age, service, and type of employment
(3) Net of pension plan investment expense, including inflation
(4) Classic: 50-67 and PEPRA: 52-67
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS (CONTINUED)
FOR THE LAST TEN FISCAL YEARS***

	2019	2018	2017	2016	2015
Contribution Deficiency (Excess)	\$ 1,224,180	\$ 1,081,154	\$ 968,372	\$ 870,680	\$ 756,872
Contributions in Relation to the Actuarially Determined Contributions	<u>1,224,180</u>	<u>1,081,154</u>	<u>968,372</u>	<u>870,680</u>	<u>756,872</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 5,179,369	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842
Contributions as a Percentage of Covered Payroll	23.64%	20.72%	18.37%	18.35%	15.92%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:					
Actuarial Cost Method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization Method	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)
Investment Rate of Return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
(2) Depending on age, service, and type of employment
(3) Net of pension plan investment expense, including inflation
(4) Classic: 50-67 and PEPRA: 52-67
(5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE LAST TEN FISCAL YEARS***

Fiscal Year-End	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Measurement Date	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Total OPEB Liability:						
Service Cost	\$ 64,523	\$ 61,298	\$ 58,287	\$ 57,291	\$ 63,116	\$ 61,278
Interest on Total OPEB Liability	75,172	74,434	67,499	62,409	39,301	38,242
Difference Between Expected and Actual Experience	9,047	-	95,306	-	178,893	-
Changes of Assumptions	67,709	-	8,321	-	(122,601)	-
Benefit Payments, Including Refunds of	(118,674)	(134,400)	(99,787)	(86,699)	(115,569)	(31,396)
Net Change in Total OPEB Liability	97,777	1,332	129,626	33,001	43,140	68,124
Total OPEB Liability - Beginning of Year	1,246,820	1,245,488	1,115,862	1,082,861	1,039,721	971,597
Total OPEB Liability - End of Year (a)	1,344,597	1,246,820	1,245,488	1,115,862	1,082,861	1,039,721
Plan Fiduciary Net Position:						
Contributions - Employer	118,674	134,400	99,787	86,699	268,569	767,396
Net Investment Income	(162,270)	232,085	39,017	61,267	40,802	20,571
Administrative Expenses	(6,787)	(6,301)	(5,179)	(2,402)	(1,970)	(619)
Benefit Payments	(118,674)	(134,400)	(99,787)	(86,699)	(115,569)	(31,396)
Net Change in Plan Fiduciary Net Position	(169,057)	225,784	33,838	58,865	191,832	755,952
Plan Fiduciary Net Position - Beginning of Year	1,266,271	1,040,487	1,006,649	947,784	755,952	-
Plan Fiduciary Net Position - End of Year (b)	1,097,214	1,266,271	1,040,487	1,006,649	947,784	755,952
Net OPEB Liability (Asset) - Ending (a)-(b)	\$ 247,383	\$ (19,451)	\$ 205,001	\$ 109,213	\$ 135,077	\$ 283,769
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	81.60%	101.56%	83.54%	90.21%	87.53%	72.71%
Covered Payroll	\$ 5,694,940	\$ 5,394,615	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869	\$ 5,684,049
Net OPEB Liability as Percentage of Covered Payroll	4.34%	-0.36%	3.76%	2.11%	2.59%	4.99%

Notes to Schedule:

Benefit Changes:

There Were No Changes in Benefits.

Changes in Assumptions:

From the June 30, 2017 to the June 30, 2018 Valuation, the discount rate used increased by 2% (from 4% to 6%), the expected long-term rate of return, net of plan investment expense increased by 2% (from 4% to 6%), and healthcare trend rate assumptions decreased by 2% (from 8% to 6%).

* Fiscal year 2018 was the first year of implementation; therefore, only five years are shown.

**FALLBROOK PUBLIC UTILITY DISTRICT
SCHEDULE OF CONTRIBUTIONS – OPEB
FOR THE LAST TEN FISCAL YEARS***

	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Actuarially Determined Contribution	\$ 99,437	\$ 75,659	\$ 73,456	\$ 66,239	\$ 72,529	\$ 74,065
Contributions in Relation to the Actuarially Determined Contributions	(124,924)	(118,673)	(134,400)	(99,786)	(67,197)	(202,055)
Contribution Deficiency (Excess)	<u>\$ (25,487)</u>	<u>\$ (43,014)</u>	<u>\$ (60,944)</u>	<u>\$ (33,547)</u>	<u>\$ 5,332</u>	<u>\$ (127,990)</u>
Covered Payroll	\$ 6,204,036	\$ 5,694,940	\$ 5,394,615	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869
Contributions as a Percentage of Covered Payroll	1.60%	1.33%	1.36%	1.22%	1.40%	1.42%

Notes to Schedule:

Valuation Date	6/30/2022	6/30/2021	6/30/2020	6/30/2018	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:						
Actuarial Cost Method	Entry age actuarial cost method **					
Discount Rate	6%					
Projected Salary increases	3.0% Per Year					
Expected Long-Term Investment Rate of Return, Net of Plan	6.00%					
Healthcare Cost Trend Rate	6.50 percent for 2022, 6.00 percent for 2023, 5.50 percent for 2024, 5.25 percent for 2059-2029, 5.00 percent for 2030-2039, 4.75 percent for 2040-2049, 4.50 percent for 2050-2069, and 4.00 percent for 2070 and later years; Medicare ages: 4.50 percent for 2022-2029 and 4.00 percent for 2030 and later years.					
Mortality	Preretirement mortality rates for Public Agency Miscellaneous from 2021 CalPERS Experience Study.					

* Fiscal year 2018 was the first year of implementation; therefore, five years are shown.

** Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The actuarial present value of projected benefits and present value of future service costs are determined on an employee by employee basis and then aggregated. To the extent that different benefit formulas apply to different employees of the same class, the service cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

FALLBROOK PUBLIC UTILITY DISTRICT SCHEDULE OF OPERATING INCOME AND EXPENSES

YEAR ENDED JUNE 30, 2023

	Water	Recycled Water	Wastewater	Total
Operating Revenues:				
Water Sales	\$ 23,467,210	\$ -	\$ -	\$ 23,467,210
Recycled Water Sales	-	1,102,493	-	1,102,493
Wastewater Sales	-	-	7,059,790	7,059,790
Total Operating Revenues	<u>23,467,210</u>	<u>1,102,493</u>	<u>7,059,790</u>	<u>31,629,493</u>
Operating Expenses:				
Cost of Water Sold	10,716,859	-	-	10,716,859
Operations and Maintenance	3,126,441	373,973	2,484,939	5,985,353
Administrative and General Expenses	4,642,717	72,861	2,550,129	7,265,707
Total Operating Expenses Before Depreciation and Amortization	<u>18,486,017</u>	<u>446,834</u>	<u>5,035,068</u>	<u>23,967,919</u>
Depreciation and Amortization Expense	6,023,850	68,645	2,904,667	8,997,162
Total Operating Expenses	<u>24,509,867</u>	<u>515,479</u>	<u>7,939,735</u>	<u>32,965,081</u>
Operating Income (Loss)	<u>\$ (1,042,657)</u>	<u>\$ 587,014</u>	<u>\$ (879,945)</u>	<u>\$ (1,335,588)</u>

YEAR ENDED JUNE 30, 2022

	Water	Recycled Water	Wastewater	Total
Operating Revenues:				
Water Sales	\$ 25,245,783	\$ -	\$ -	\$ 25,245,783
Recycled Water Sales	-	1,232,350	-	1,232,350
Wastewater Sales	-	-	6,336,853	6,336,853
Total Operating Revenues	<u>25,245,783</u>	<u>1,232,350</u>	<u>6,336,853</u>	<u>32,814,986</u>
Operating Expenses:				
Cost of Water Sold	13,245,830	-	-	13,245,830
Operations and Maintenance	6,046,295	558,105	4,242,550	10,846,950
Administrative and General Expenses	4,322,980	67,945	2,378,061	6,768,986
Other Expenses	4,322,980	67,945	2,378,061	6,768,986
Total Operating Expenses Before Depreciation	<u>23,615,105</u>	<u>626,050</u>	<u>6,620,611</u>	<u>30,861,766</u>
Depreciation Expense	4,148,931	60,422	2,858,427	7,067,780
Total Operating Expenses	<u>27,764,036</u>	<u>686,472</u>	<u>9,479,038</u>	<u>37,929,546</u>
Operating Income (Loss)	<u>\$ (2,518,253)</u>	<u>\$ 545,878</u>	<u>\$ (3,142,185)</u>	<u>\$ (5,114,560)</u>

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STATISTICAL SECTION

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Table #1 - Net Positions

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2014	\$ 64,203,257	\$ 2,431,978	\$ 12,479,645	\$ 79,114,880
2015	67,995,640	2,231,947	4,807,404	75,034,991
2016	70,683,956	3,455,377	5,170,519	79,309,852
2017	76,004,617	3,495,635	5,668,185	85,168,437
2018	79,333,568	4,711,487	2,038,252	86,083,307
2019	81,264,522	9,477,694	6,465,333	97,207,549
2020	82,199,752	10,188,202	6,316,800	98,704,754
2021	83,368,399	10,340,855	10,112,885	103,822,139
2022	84,830,631	9,631,081	8,260,270	102,721,982
2023	84,709,855	10,707,799	12,879,884	108,297,538

Source: Fallbrook Public Utility District

Table #2 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Changes in Net Position:			
Operating Revenues (See Table 4)	\$ 28,955,183	\$ 27,483,881	\$ 25,356,017
Operating Expenses (See Table 3)	(33,062,764)	(28,604,249)	(27,144,267)
Other Operating Revenues	681,876	-	-
Operating Income (loss)	\$ (3,425,705)	\$ (1,120,368)	\$ (1,788,250)
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	\$ 1,623,510	\$ 1,719,296	\$ 1,815,734
Capital Improvement Charges	1,981,822	2,134,025	2,224,529
California Solar Initiative Rebate	843,714	729,519	740,125
Investment income (Loss)	209,175	141,433	324,126
Lease Interest income	-	-	-
Water Availability Charges	200,779	200,810	200,808
MWD Local Resource Program	-	-	-
Lease Revenue	183,641	185,770	185,220
Intergovernmental Revenue - Federal Interest Subsidy	-	206,584	185,040
Connection Fees	118,581	208,521	131,894
SDCWA Rate Refund	-	-	-
COVID Relief Grant	-	-	-
Water Supply Grant Funds	-	-	-
Gain (Loss) on disposal of capital assets	-	(444,252)	(551,281)
Community Benefit Program Expense	-	-	-
Other Non-Operating Revenues	140,396	162,913	91,361
Other Non-Operating Expenses	(344,730)	(847,725)	(916,212)
Total Non-Operating Revenues(expenses), net	\$ 4,956,888	\$ 4,396,894	\$ 4,431,344
Net income Before Capital Contributions	\$ 1,531,183	\$ 3,276,526	\$ 2,643,094
Capital Contributions	76,746	153,790	75,299
Capital Grant - Proposition 50	828,598 ⁽¹⁾	224,596 ⁽¹⁾	874,040 ⁽³⁾
Capital Grant - Proposition 84	-	-	682,428 ⁽³⁾
Changes in Net Position	\$ 2,436,527	\$ 3,654,912	\$ 4,274,861
Net Position			
Beginning, as restated	\$ 76,678,353	\$ 79,114,880	\$ 75,034,991
Adjustments to restate balance	-	(7,734,801) ⁽²⁾	-
Ending, as restated	\$ 79,114,880	\$ 75,034,991	\$ 79,309,852

(1) Capital Grant of \$828,598 was received from State of California Wildlife Conservation Board Proposition 50 Funding.

(2) Accumulative effect of change in accounting principles.

(3) State Proposition 50 in the amount of \$874,040 and State Proposition 84 in the amount of \$682,428 was received.

Source: Fallbrook Public Utility District

Table #2 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years, Continued

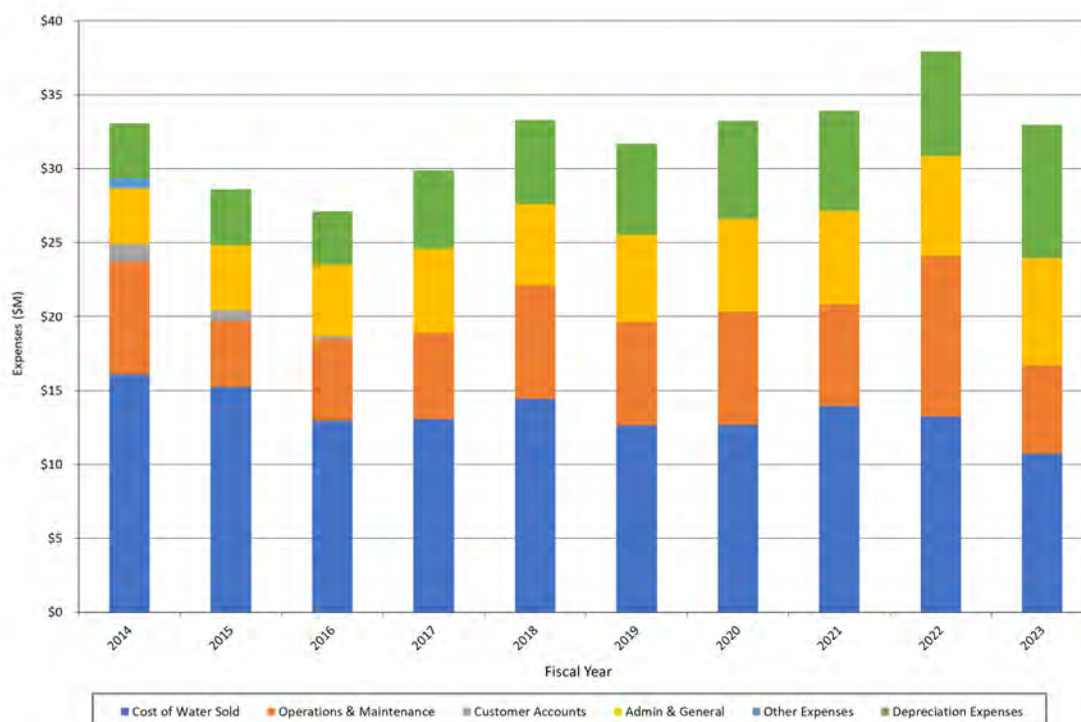
Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
\$ 27,256,065 (29,890,177)	\$ 29,882,022 (33,319,799)	\$ 26,944,550 (31,708,417)	\$ 28,931,007 (33,234,259)	\$ 32,511,601 (33,933,185)	\$ 32,814,986 (37,929,546)	\$ 31,629,493 (32,965,081)
-	-	-	-	-	-	-
\$ (2,634,112)	\$ (3,437,777)	\$ (4,763,867)	\$ (4,303,252)	\$ (1,421,584)	\$ (5,114,560)	\$ (1,335,588)
\$ 1,889,808 2,283,558 234,930 63,861 - 200,730 - 166,012 238,765 238,124 - - - - 32,729 (1,174,011)	\$ 1,984,543 2,476,452 - 18,188 - 229,400 - 178,602 145,338 411,774 - - - (273,396) - - (959,015)	\$ 2,106,034 2,505,876 - 915,275 - 204,359 - 199,433 134,924 180,966 - - - 9,338,297 - - (909,966)	\$ 2,205,975 2,559,135 - 920,135 - 204,418 - 249,092 123,762 107,107 - - - (31,450) - - (910,224)	\$ 2,340,185 2,604,061 - 1,543,078 - 208,842 - 251,047 112,207 149,650 909,413 - - 38,100 - - (1,665,457)	\$ 2,397,429 2,650,202 - (1,835,245) 15,437 202,234 197,884 284,819 99,240 193,201 839,398 184,762 213,368 36,543 - - (1,524,767)	\$ 2,617,564 2,838,696 - 932,974 16,496 200,107 517,280 331,006 86,153 186,946 8,441 - 452,253 170,307 (96) - (1,622,851)
\$ 4,174,506	\$ 4,211,886	\$ 14,675,198	\$ 5,427,950	\$ 6,491,127	\$ 3,954,505	\$ 6,735,276
\$ 1,540,394	\$ 774,109	\$ 9,911,331	\$ 1,124,698	\$ 5,069,543	\$ (1,160,055)	\$ 5,399,688
59,509 773,163 -	73,661 - 67,100	73,789 - -	372,507 - -	47,842 - -	59,898 - -	175,868 - -
\$ 2,373,066	\$ 914,870	\$ 9,985,120	\$ 1,497,205	\$ 5,117,385	\$ (1,100,157)	\$ 5,575,556
\$ 79,309,852 3,485,519	\$ 85,168,437 -	\$ 86,083,307 1,139,122	\$ 97,207,549 -	\$ 98,704,754 -	\$ 103,822,139 -	\$ 102,721,982 -
\$ 85,168,437	\$ 86,083,307	\$ 97,207,549	\$ 98,704,754	\$ 103,822,139	\$ 102,721,982	\$ 108,297,538

Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years)

Fiscal Year	Water				Recycled			
	Cost of Water Sold	Operations & Maintenance	Customer Accounts	Admin & General ⁽¹⁾	Cost of Water Sold	Operations & Maintenance	Admin & General ⁽¹⁾	Other Expenses
2014	\$15,649,781	\$3,810,606	\$1,179,998	\$2,006,124	\$427,328	\$63,620	\$188,964	\$171,960
2015	14,692,652	2,173,576	725,610	2,286,586	551,866	N/A	337,226	N/A
2016	12,804,470	2,788,548	203,260	2,571,803	146,128	N/A	242,623	N/A
2017	13,067,064	3,030,201	N/A	2,963,305	N/A	622,997	346,173	N/A
2018	14,453,229	3,922,528	N/A	2,868,610	N/A	693,972	330,993	N/A
2019	12,650,795	3,444,139	N/A	3,807,921	N/A	548,821	51,473	N/A
2020	12,663,006	3,984,938	N/A	3,985,541	N/A	433,945	63,499	N/A
2021	13,955,908	3,330,054	N/A	4,036,546	N/A	378,419	63,071	N/A
2022	13,245,830	6,046,295	N/A	4,322,980	N/A	558,105	67,945	N/A
2023	10,716,859	3,126,441	N/A	4,642,717	N/A	373,973	72,861	N/A

Note: (1) - General and administration costs are allocated as follows: 64% water, 35% wastewater, and 1% recycled water.

Source: Fallbrook Public Utility District

Chart #1 - Operating Expenses by Activity

Source: Fallbrook Public Utility District

Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years), Continued

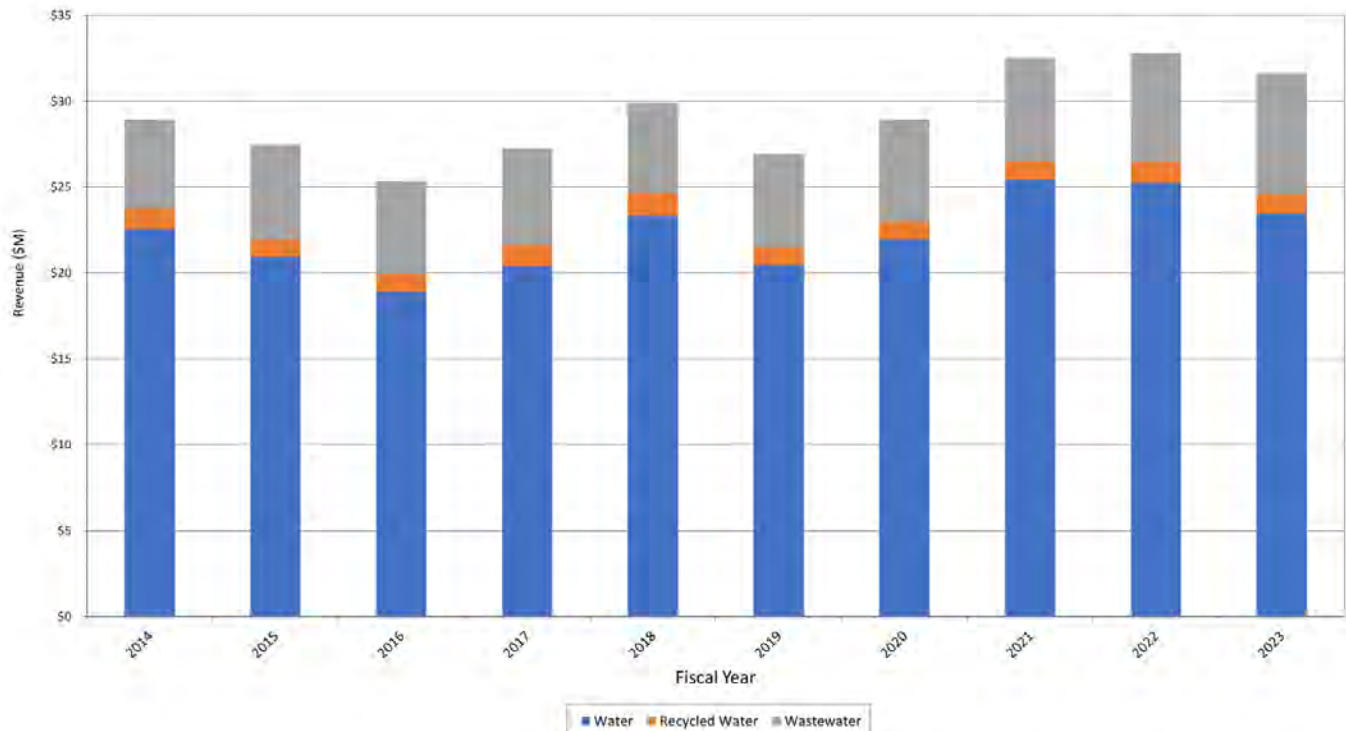
Wastewater			Depreciation Expenses	Total Operating Expenses
Operations & Maintenance	Admin & General ⁽¹⁾	Other Expenses		
\$ 3,765,046	\$ 1,584,190	\$ 509,916	\$ 3,705,231	\$ 33,062,764
2,296,712	1,763,527	N/A	3,776,494	28,604,249
2,709,284	2,038,033	N/A	3,640,118	27,144,267
2,173,738	2,392,389	N/A	5,294,310	29,890,177
3,039,790	2,316,954	N/A	5,693,723	33,319,799
2,956,457	2,090,222	N/A	6,158,589	31,708,417
3,286,965	2,178,369	N/A	6,637,996	33,234,259
3,188,426	2,207,488	N/A	6,773,273	33,933,185
4,242,550	2,378,061	N/A	7,067,780	37,929,546
2,484,939	2,550,129	N/A	8,997,162	32,965,081

Table #4 - Operating Revenues by Source (Last Ten Fiscal Years)

Fiscal Year	Water			Recycled			Wastewater		Total Operating Revenue
	Water Sales	Service Charges	Other Charges	Water Sales	Service Charges	Other Charges	Service Charges	Other Charges	
2014	\$ 16,587,771	\$ 4,772,242	\$ 1,188,741	\$ 802,509	\$ 50,972	\$ 344,423	\$ 5,205,516	\$ 3,009	\$ 28,955,183
2015	14,722,792	4,930,254	1,295,660	662,849	53,011	244,466	5,571,362	3,487	27,483,881
2016	12,328,995	5,000,621	1,583,301	824,925	59,359	156,353	5,402,353	110	25,356,017
2017	13,233,057	5,388,463	1,783,859	1,135,841	N/A	86,620	5,627,476	749	27,256,065
2018	16,194,537	5,777,173	1,340,062	1,153,170	17,956	156,060	5,258,183	(15,119)	29,882,022
2019	12,997,586	6,291,436	1,192,767	920,376	(17,974)	96,541	5,453,590	10,230	26,944,550
2020	14,040,914	6,782,468	1,116,852	949,040	51,745	58,520	5,924,878	6,590	28,931,007
2021	17,115,866	7,237,052	1,076,096	1,029,394	53,769	5,000	5,993,042	1,382	32,511,601
2022	16,464,444	7,664,909	1,116,430	1,169,287	58,063	5,000	6,323,887	12,966	32,814,986
2023	14,194,199	8,259,546	1,013,465	1,037,210	60,283	5,000	7,048,717	11,073	31,629,493

Source: Fallbrook Public Utility District

Chart #2 - Operating Revenues by Source



Source: Fallbrook Public Utility District

Table #5 - Water Rates (\$/Kgal*) ⁽¹⁾

Fiscal Year	Domestic			Commercial		Government	Special Ag Rate	Commercial Ag Rate
	Tier 1	Tier 2	Tier 3 ⁽²⁾	Tier 1	Tier 2			
2014	\$ 4.03	\$ 4.64	\$ 5.11	\$ 4.03	\$ 4.64	\$ 4.64	\$ 3.14	\$ 4.06
2015	4.19	4.61	5.08	4.19	4.61	4.61	3.14	4.06
2016	4.38	4.82	5.31	4.38	4.82	4.82	3.18	4.28
2017	5.21	5.74	6.32	5.21	5.74	5.74	3.65	4.97
2018	5.62	5.71	6.95	5.79	5.79	5.70	4.17	4.83
2019	5.96	6.05	7.37	6.14	6.14	6.04	4.42	5.12
2020	6.44	6.53	7.96	6.63	6.63	6.52	4.77	5.53
2021	6.83	6.92	8.44	7.03	7.03	6.91	5.06	5.86
2022	7.17	7.27	8.86	7.38	7.38	7.26	5.31	6.15
2023	7.31	8.06	N/A	7.72	7.72	7.72	5.63	6.38

*Kgal = 1,000 gal

Note: (1) - The District is required to follow the rules of Proposition 218 when raising or adjusting its rates.

Note: (2) - The District removed the Tier 3 domestic rate as of January 1, 2023.

Source: Fallbrook Public Utility District

Table #6 - Non-Agricultural/Government Monthly Water Service Charge (\$/month)

Fiscal Year	¾" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2014	\$ 36.63	\$ 47.66	\$ 68.02	\$ 99.54	\$ 162.38	\$ 258.19	\$ 461.43	\$ 21.83
2015	38.10	49.57	70.74	103.52	168.88	268.52	479.89	22.70
2016	39.24	51.06	72.86	106.63	173.95	276.58	494.29	23.38
2017	41.59	54.12	77.23	113.03	184.39	293.17	523.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,240.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable
2021	53.52	81.70	152.12	236.65	462.01	715.55	1,419.85	*Variable
2022	56.20	85.79	159.73	248.48	485.11	751.33	1,490.84	*Variable
2023	60.60	96.51	185.46	292.64	578.82	900.36	1,793.16	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #7 - Monthly Water Service Charge (Ag/Gov) (\$/month)

Fiscal Year	¾" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2014	\$ 44.89	\$ 59.28	\$ 85.69	\$ 126.62	\$ 208.35	\$ 323.73	\$ 583.40	\$ 21.83
2015	44.89	59.28	85.69	126.62	208.35	323.73	583.40	22.70
2016	46.24	61.06	88.26	130.42	214.60	333.44	600.90	23.38
2017	49.01	64.72	93.56	138.25	227.48	353.45	636.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,240.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable
2021	53.52	81.70	152.12	236.65	462.01	715.55	1,419.85	*Variable
2022	56.20	85.79	159.73	248.48	485.11	751.33	1,490.84	*Variable
2023	60.60	96.51	185.46	292.64	578.82	900.36	1,793.16	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #8 - Monthly Water Capital Improvement Charge (CIC) (\$/month)

Fiscal Year	¾" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2014	\$ 8.00	\$ 11.00	\$ 16.00	\$ 25.00	\$ 42.00	\$ 66.00	\$ 120.00	\$ 4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	*Variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	*Variable
2020	9.47	15.78	31.56	50.49	100.98	157.79	315.57	*Variable
2021	9.77	16.27	32.55	52.07	104.14	162.72	325.43	*Variable
2022	10.10	16.82	33.66	53.84	107.68	168.25	336.50	*Variable
2023	11.11	18.50	37.03	59.22	118.45	185.08	370.15	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #9 - Sewer Rates by Customer Class (2014 - 2023)

2014		2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2020 ⁽¹⁾	2021 ⁽¹⁾	2022 ⁽¹⁾	2023 ⁽¹⁾⁽²⁾
Fixed Rates (by meter size) (\$/month)					Fixed Rates by EDU					
3/4"	\$13.19	\$14.10	\$ 14.23	\$ 16.12	B Y EDU \$9.28/ EDU	B Y EDU \$9.70/ EDU	B Y EDU \$10.14/ EDU	B Y EDU \$10.60/ EDU	B Y EDU \$11.08/ EDU	Residential/ Domestic \$18.88/EDU
1"	19.95	21.23	21.55	24.01						
1 1/2"	36.86	39.06	39.86	43.75						
2"	57.15	60.46	61.84	67.42						
3"	104.49	110.38	113.14	122.67						
4"	172.12	181.70	186.36	201.60						
6"	341.20	359.99	369.49	398.91						Commercial/ Government \$12.14/EDU
Billable Flow Rates ⁽³⁾ (\$/Kgal)										
Single Family Residence, Ag Domestic, Multi - Family	\$ 7.64	\$ 7.64	\$ 8.21	\$ 8.77	\$ 9.44	\$ 9.86	\$ 10.32	\$ 10.79	\$ 11.28	\$ 10.22
Low -Strength Commercial, Schools, Churches	11.54	11.54	12.35	13.27	9.37	9.79	10.25	10.72	11.20	11.09
Medium Strength Commercial	11.54	11.54	12.35	13.27	11.57	12.09	12.65	13.22	13.81	13.82
High Strength Commercial	19.35	19.35	20.63	22.28	14.44	15.09	15.77	16.48	17.22	17.66

Notes:

(1) - Rates switched from fiscal year to calendar year January 1, 2018.

(2) - The 2022 rate study changed the monthly fixed charge methodology effective January 1, 2023.

(3) - Billable flow rates are calculated based upon water usage adjusted for outdoor use.

Source: Fallbrook Public Utility District

Table #10 - Monthly Sewer Capital Improvement Charge (CIC) (\$/month)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Per EDU	\$ 10.00	\$ 10.44	\$ 10.70	\$ 10.84	\$ 11.16	\$ 11.53	\$ 11.62	\$ 11.63	\$ 11.68	\$ 12.66

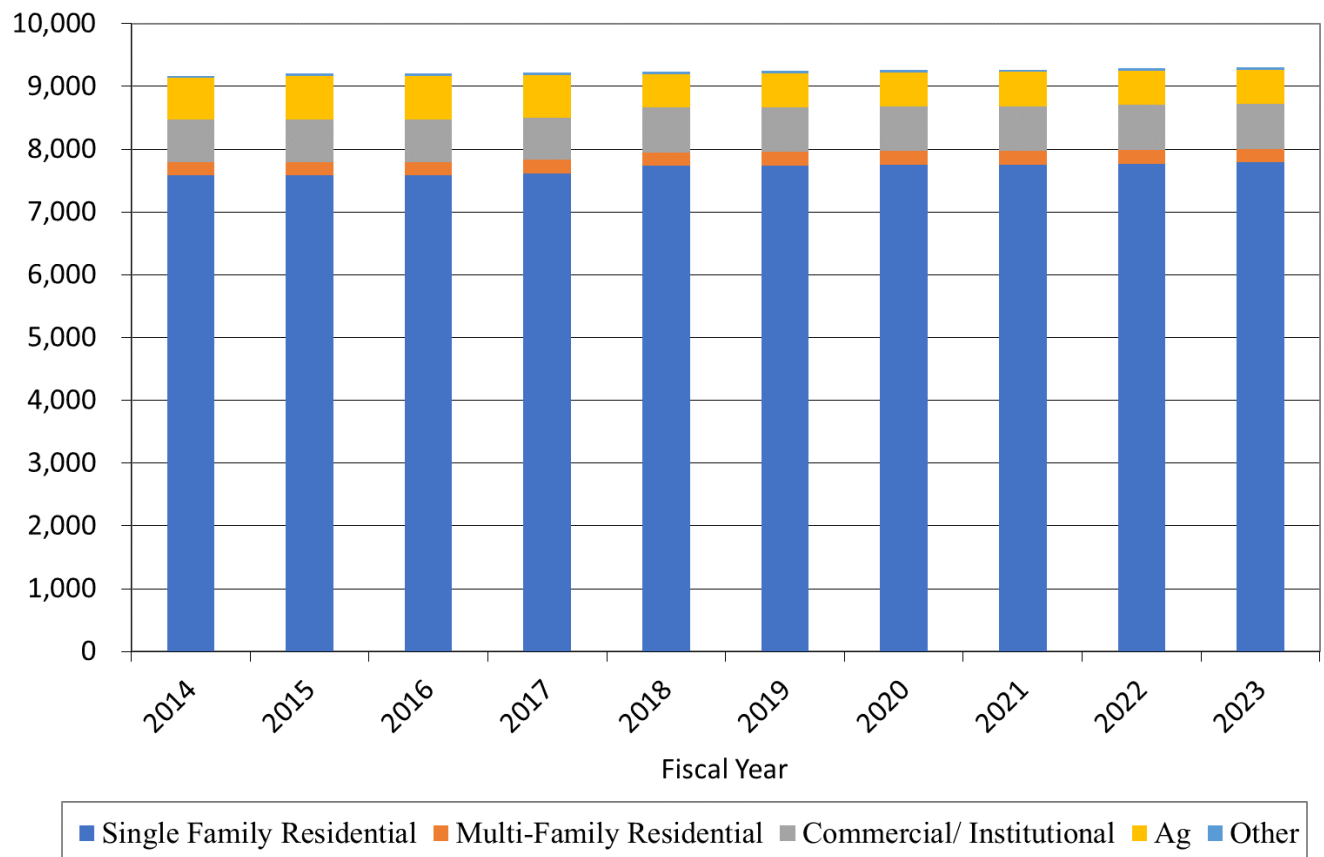
Source: Fallbrook Public Utility District

Table #11 - Number of Water Customers by Type

As of June 30	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Ag	Other	Total
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251
2020	7,755	216	712	535	41	9,259
2021	7,757	218	711	543	41	9,270
2022	7,772	218	712	546	43	9,291
2023	7,787	217	712	551	43	9,310

Source: Fallbrook Public Utility District

Chart #3 - Number of Water Customers by Type

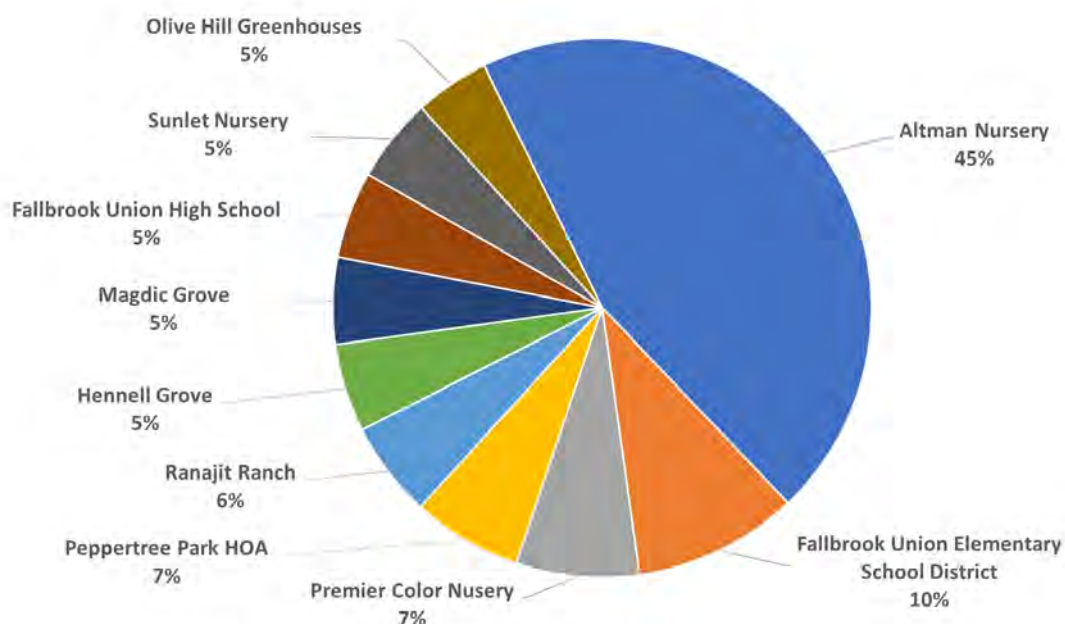


Source: Fallbrook Public Utility District

Table #12 - Top Ten Water Customers

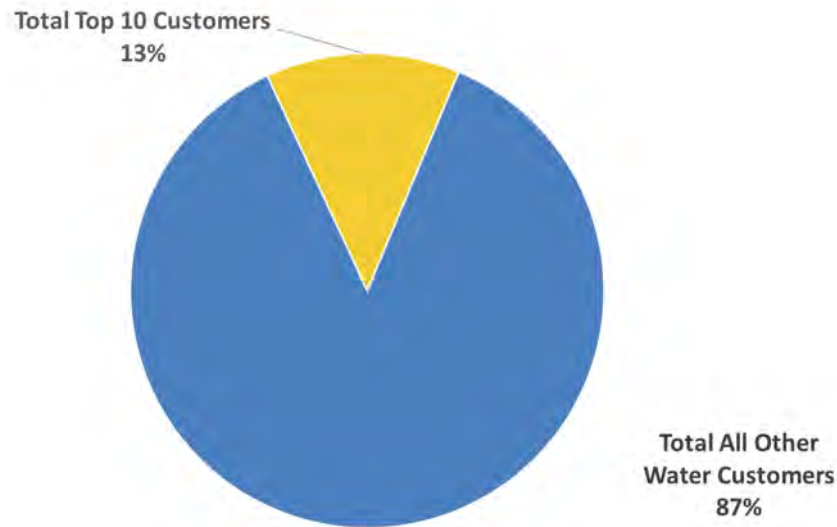
Fiscal Year 2014			Fiscal Year 2023		
Customer	Annual Usage (Kgal)	Percent of Total	Customer	Annual Usage (Kgal)	Percent of Total
Ross Ranch	104,772	2.55%	Altman Nursery	132,741	5.98%
Chandler Ranch	85,451	2.08%	Fallbrook Union Elementary School District	29,140	1.31%
ACW Ranch	69,751	1.70%	Premier Color Nusery	21,746	0.98%
Sparrow Hawk Ranch	58,529	1.43%	Peppertree Park HOA	19,484	0.88%
Eco Farms Ranch	56,961	1.39%	Ranajit Ranch	16,881	0.76%
Color Spot Nursery	39,758	0.97%	Hennell Grove	15,571	0.70%
Lilac 124 Inc	39,283	0.96%	Magdic Grove	15,346	0.69%
Brown Ranch	38,856	0.95%	Fallbrook Union High School	15,326	0.69%
Magdic Grove	33,526	0.82%	Sunlet Nursery	14,882	0.67%
Hennel Grove	29,322	0.71%	Olive Hill Greenhouses	13,204	0.60%
Total Top 10 Customers	556,209	13.54%	Total Top 10 Customers	294,321	13.26%
Total All Other Water Customers	3,550,651	86.46%	Total All Other Water Customers	1,924,725	86.74%
Total Water Consumed	4,106,860	100.00%	Total Water Consumed	2,219,046	100.00%

Source: Fallbrook Public Utility District

Chart #4 - Top Ten Water Customers and their Relative Consumption Fiscal Year 2023

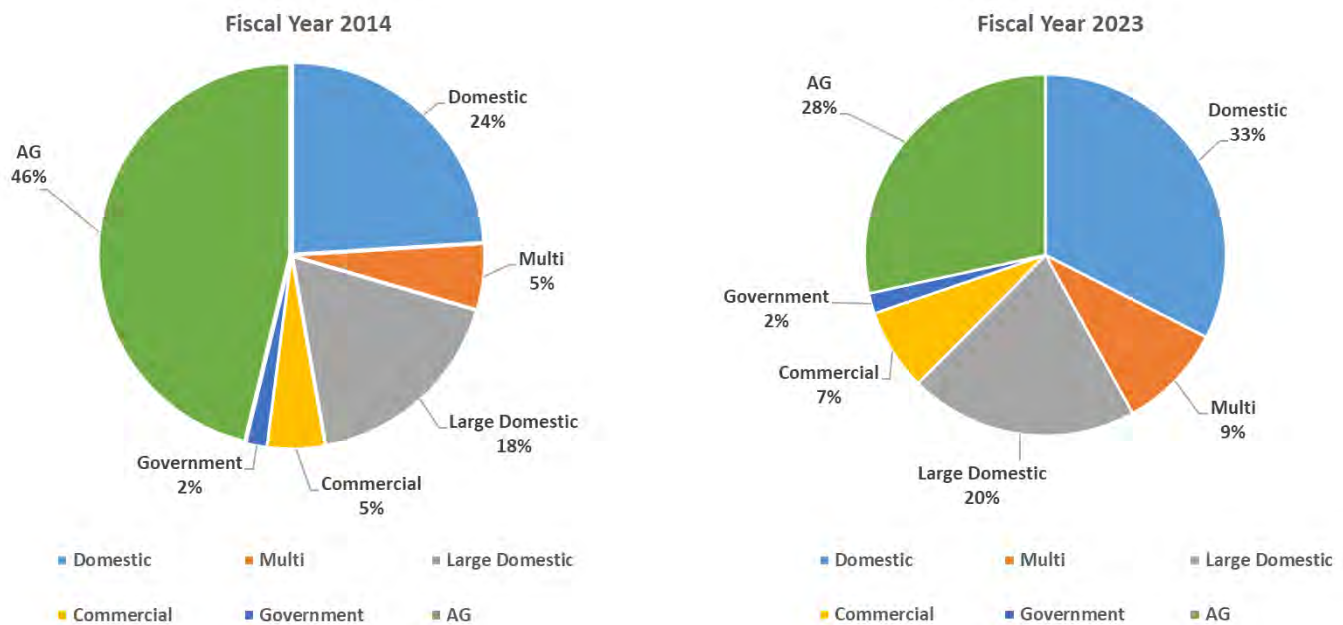
Source: Fallbrook Public Utility District

Chart #5 - Total Water Consumed Fiscal Year 2023



Source: Fallbrook Public Utility District

Chart #6 - Breakdown of Water Sales by Customer Class for Fiscal Year 2014 vs Fiscal Year 2023



Source: Fallbrook Public Utility District

Table #13 - Water System

Fiscal Year	Miles of Water Mains	Service Connections	Annual Production (G)	Average Daily Production (gpd)
2014	268.94	9,154	4,178,179,040	11,447,066
2015	268.98	9,166	3,327,254,350	9,115,765
2016	269.11	9,197	3,235,951,180	8,865,620
2017	269.11	9,211	3,114,930,490	8,534,056
2018	269.11	9,244	3,287,934,350	9,008,039
2019	269.29	9,253	2,684,556,048	7,354,948
2020	269.36	9,262	2,602,343,841	7,129,709
2021	270.44	9,275	2,905,874,048	7,961,299
2022	271.62	9,295	2,686,152,719	7,359,323
2023	271.62	9,315	2,169,744,054	5,944,504

Source: Fallbrook Public Utility District

Table #14 - Water System Total Production⁽¹⁾

Fiscal Year	Total Used/Prod. (AF)	HCF
2014	12,822.40	5,585,437.44
2015	10,211.00	4,447,911.60
2016	9,930.80	4,325,856.48
2017	9,559.40	4,164,074.64
2018	10,090.30	4,395,334.68
2019	8,238.60	3,588,734.16
2020	7,986.30	3,478,832.28
2021	8,917.80	3,884,593.68
2022	8,243.50	3,590,868.60
2023	6,658.70	2,900,529.72

Note: (1) - Total Production before system losses.

Source: Fallbrook Public Utility District

Table #15 - Sewer System

Fiscal Year	Miles of Sewer Lines	Sewer Connections	Annual Sewerage (G)	Daily Sewerage (GD)
2014	78.62	5,028	540,541,189.86	1,480,934.77
2015	78.64	5,034	562,027,804.80	1,539,802.20
2016	78.64	5,044	499,860,321.77	1,369,480.33
2017	78.64	5,049	507,140,810.66	1,389,426.88
2018	78.64	5,049	486,337,179.41	1,332,430.63
2019	78.70	5,004	556,424,471.00	1,524,450.00
2020	79.14	5,011	551,861,979.40	1,511,950.63
2021	79.14	5,029	551,882,461.86	1,512,006.74
2022	79.14	5,032	552,099,762.35	1,512,602.09
2023	79.14	5,039	598,986,532.11	1,641,058.99

Source: Fallbrook Public Utility District

Table #16 - Sewer System Influent Flow

Fiscal Year	Total Used/Prod. (AF)
2014	1,873.30
2015	1,997.62
2016	1,639.42
2017	1,706.45
2018	1,592.26
2019	1,707.60
2020	1,693.60
2021	1,693.70
2022	1,694.30
2023	1,838.22

Source: Fallbrook Public Utility District

Table #17 - Recycled Water System

Fiscal Year	Miles of Recycled Pipes	Service Connections	Used Annual Recycled Water (AF) ⁽¹⁾	Daily Usage (MGD)
2014	8.28	28	746.80	0.7
2015	8.28	28	598.80	0.5
2016	10.53	29	599.83	0.5
2017	10.53	30	671.34	0.6
2018	10.53	32	740.40	0.7
2019	10.53	33	562.66	0.5
2020	10.53	30	559.89	0.5
2021	10.53	30	556.54	0.5
2022	10.53	30	586.28	0.5
2023	10.53	30	493.83	0.4

Note: (1) - Includes water not billed at full rate

Source: Fallbrook Public Utility District

Table #18 - Recycled Water System Production

Fiscal Year	Total Prod./Disposed (AF)	Notes:
2014	1,658.86	G- Gallons
2015	1,724.80	GD - Gallons per Day
2016	1,534.02	AF - Acre Feet
2017	1,556.36	MG - Millions of Gallons
2018	1,492.51	MGD - Millions of Gallons per Day
2019	1,617.50	
2020	1,656.50	
2021	1,619.20	
2022	1,714.20	
2023	1,904.19	

Source: Fallbrook Public Utility District

FPUD treats all water to recycled standards. This tables includes both recycled water used as well as discharged to the ocean outfall.

Table #19- Annual Recycled Water Production and WRP Influent Flow

Fiscal Year	Annual Production	Daily Average Production	Total Used Production	Total Disposed	WRP Influent Flow (Acre-Ft)
2014	1,756.49	4.81	690.15	1,066.34	1,888.80
2015	1,588.47	4.35	584.11	1,004.36	1,878.31
2016	1,489.03	4.08	694.37	794.66	1,600.40
2017	1,570.92	4.30	664.82	906.11	1,694.43
2018	1,492.51	4.09	740.39	752.12	1,592.26
2019	1,617.50	4.43	562.70	1,054.80	1,707.60
2020	1,656.50	4.54	559.90	1,096.60	1,693.60
2021	1,619.20	4.44	556.50	1,062.70	1,693.70
2022	1,714.20	4.70	586.30	1,127.90	1,694.30
2023	1,904.19	5.22	493.83	1,410.36	1,838.22

Source: Fallbrook Public Utility District

Table #20 - Full Time Equivalent (FTE) Employees by Function

Fiscal Year	Water Services	Wastewater Services	Recycled Water Services	General & Administrative	Community Benefit Program	Total FTE Employees
2014	21	13	6	27.8	0	67.8
2015	21	13	5	28.8	0	67.8
2016	20	13	5	28.8	0	66.8
2017	23	12	5	27.8	0	67.8
2018	24	15.2	2.8	25.8	0	67.8
2019	24	15.2	2.8	25.8	0	67.8
2020	25	15.2	2.8	24.8	0	67.8
2021	25	15.2	2.8	23.8	0	66.8
2022	26.4	15.8	2.8	24	0	69
2023	26.4	15.8	2.8	24	0.05	69

Source: Fallbrook Public Utility District

Table #21 -Assessed Valuation of Taxable Property

Fiscal Year	Secured				Unsecured		Total Assessed Value
	Water		Sewer		Water	Sewer	
	Local Assessed	State Assessed	Local Assessed	State Assessed			
2014	\$ 3,058,914,090	-	\$ 1,811,990,591	-	\$ 39,761,073	\$ 34,916,821	\$ 4,945,582,575
2015	3,234,556,718	-	1,928,060,834	-	40,480,476	35,184,912	5,238,282,940
2016	3,390,367,447	-	2,021,437,198	-	37,440,559	32,152,307	5,481,397,511
2017	3,518,846,961	-	2,098,501,032	-	36,135,611	31,163,876	5,684,647,480
2018	3,709,470,372	-	2,220,524,962	-	36,271,614	31,902,804	5,998,169,752
2019	3,895,955,738	-	2,337,209,037	-	41,211,234	35,075,356	6,309,451,365
2020	4,078,331,287	-	2,463,512,540	-	41,515,562	35,305,514	6,618,664,903
2021	4,268,726,975	-	2,583,369,560	-	42,961,480	37,819,020	6,932,877,035
2022	4,399,211,909	-	2,663,835,892	-	37,054,002	32,536,269	7,132,638,072
2023	4,739,631,751	-	2,878,119,724	-	46,156,838	41,126,926	7,705,035,239

Source: County of San Diego, Office of the Auditor & Controller

Table #22 -Property Tax

Fiscal Year	Current Year Levy ⁽¹⁾			Revenues Collected ⁽²⁾			Uncollected Collected			Percent Uncollected
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total	
2014	\$ 887,378	\$ 798,786	\$ 1,686,164	\$ 874,729	\$ 787,339	\$ 1,662,068	\$ 12,649	\$ 11,447	\$ 24,096	1.4%
2015	933,206	847,121	1,780,327	921,440	836,401	1,757,840	11,766	10,721	22,487	1.3%
2016	982,997	890,717	1,873,715	970,998	879,769	1,850,767	11,999	10,949	22,948	1.2%
2017	1,022,747	927,792	1,950,539	1,009,595	915,788	1,925,384	13,151	12,004	25,155	1.3%
2018	1,072,468	978,636	2,051,105	1,060,447	967,619	2,028,066	12,021	11,017	23,039	1.1%
2019	1,122,771	1,028,393	2,151,164	1,108,272	1,015,057	2,123,329	14,499	13,336	27,835	1.3%
2020	1,169,224	1,079,727	2,248,951	1,154,850	1,066,408	2,221,258	14,374	13,319	27,693	1.2%
2021	1,221,575	1,131,688	2,353,264	1,205,539	1,116,772	2,322,312	16,036	14,916	30,952	1.3%
2022	1,274,829	1,179,737	2,454,566	1,245,713	1,152,659	2,398,372	29,116	27,078	56,194	2.3%
2023	1,388,768	1,293,644	2,682,412	1,359,100	1,265,875	2,624,974	29,668	27,769	57,438	2.1%

Notes:

(1) - Total levy including penalties before administrative fees.

(2) - Amount before administrative and other fees deducted.

Source: County of San Diego, Office of the Auditor & Controller

Table #23 -Key Performance Indicators (KPIs) Fiscal Year 2023

Strategic Goal	Department	Key Performance Indicator	Target	FY 2022-23 Actual	Target Met
Efficiency	Safety	Maintain a Workers Compensation Experience Modification Rate below 1%	Below 1%	0.86%	Yes
Efficiency	Inventory/ Purchasing	Maintain an inventory shrinkage rate of less than 1%	Below 1%	0.37% surplus*	Yes
Efficiency	Recycled	Maintain an overall compliance of >99.9% each month from all samples associated with the Title 22 and WDR Permit	>99.9%	99.9%	Yes
Efficiency	Recycled	Maintain energy consumption data to stay within the annual average target	Below 2,760,000 kWh	2,560,696/kWh	Yes
Efficiency	Wastewater	Reduce 10-year average wastewater spills by 10% - Keep spills under 9,075 gallons	Below 9,075 gallons	3,010 gallons 10 year average	Yes
Efficiency	Wastewater	Keep common sewer spills to 3 or less during the year	3 or less spills/year	1 spill	Yes
Efficiency	Wastewater	Clean 20,000 feet of regular sewer mains each month to total 240,000 feet per year	240,000 feet/year	272,751 feet	Yes
Efficiency	Wastewater	Maintain energy consumption to stay within the annual average target	Below 2,760,000 kWh	2,560,696/kWh	Yes
Community	Customer Service	Maintain an average customer service call wait time of less than 3 minutes	Below 3 minutes	0:55 seconds	Yes
Community	Customer Service	Percentage of customers enrolled in Watersmart-AMI portal (as a % of total District customers)	60% by Fiscal Year 2026	37%	Yes
Fiscal Management	Finance	Debt Coverage	>1.20	4.19	Yes
Fiscal Management	Finance	Days Cash on hand	90 days or greater	113 days	Yes
Water Supply	Water	Cost/Acre Foot of SMGTP Product Water Supply	Below \$1,500/AF	\$1,062/AF	Yes
Infrastructure	Water	Cost/Valve Installed (Labor & Materials)	Below \$6,500/Valve	\$6,245/Valve	Yes
Infrastructure	Wastewater	Cost/MG of Wastewater Influent Flows	Below \$3,500/MG	\$3,146/MG	Yes
Workforce	Human Resources	Employee engagement survey results; percentage of employees rating their overall morale as "high"	Above 25%	47%	Yes

Source: Fallbrook Public Utility District

* We had a surplus this year instead of a shrinkage.

Table #24 -Pledged-Revenue Debt Service Coverage Ratio

Fiscal Year	Total Operating Revenues	Total Operating Expenses ⁽¹⁾	Non-Operating Revenue ⁽²⁾	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio	Required Coverage Level
2014	\$ 28,955,183	\$ 29,357,533	\$ 5,301,618	\$ 4,899,268	\$ 1,414,198	3.46	1.20
2015	27,483,881	25,591,207	5,482,287	7,374,961	1,319,031	5.59	1.20
2016	25,356,017	24,281,233	5,898,837	6,973,621	1,302,876	5.35	1.20
2017	27,256,065	25,384,395	5,348,517	7,220,187	2,756,731	2.62	1.20
2018	29,882,022	27,626,075	5,170,901	7,426,848	2,758,501	2.69	1.20
2019	26,944,550	25,549,828	⁽³⁾ 6,246,867	6,731,623	2,760,019	2.44	1.20
2020	28,931,007	26,596,263	6,338,174	7,762,694	2,761,290	2.81	1.20
2021	32,511,601	27,159,912	8,156,584	11,842,816	3,101,093	3.82	1.20
2022	32,814,986	30,861,766	5,479,272	7,432,492	3,621,118	2.05	1.20
2023	31,629,493	23,967,919	8,358,127	16,019,701	3,822,936	4.19	1.20

Source: Fallbrook Public Utility District

Notes:

(1) - Excludes depreciation

(2) - Excludes debt interest expenses

(3) - Excludes one-term gain of \$9,338,297 on the sale of assets.

Table #25 Computation of Direct and Overlapping Debt (As of 06/30/2023)

2022-2023 Assessed Valuation: \$4,785,788,589

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt (6/30/23)	% Applicable ⁽¹⁾	District's Share of Debt (6/30/23)
Metropolitan Water District	\$ 19,215,000	0.131%	\$ 25,172
Palomar Community College District	641,965,146	3.174	20,375,974
Bonsall Unified School District	10,433,071	0.477	49,766
Fallbrook Union High School District	38,380,000	62.789	24,098,418
Fallbrook Union School District	10,832,411	66.479	7,201,279
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 51,750,609
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 229,680,000	0.729%	\$ 1,674,367
San Diego County Pension Obligation Bonds	277,990,000	0.729	2,026,547
San Diego County Superintendent of Schools Certificates of Participation	6,935,000	0.729	50,556
Palomar Community College District Certificates of Participation	1,310,000	3.174	41,579
Bonsall Unified School District Certificates of Participation	6,283,900	0.477	29,974
Fallbrook Union High School District General Fund Obligations	6,550,130	62.789	4,112,761
Fallbrook Public Utility District	0	100.	0
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 7,935,784
TOTAL DIRECT DEBT			\$ 0
TOTAL OVERLAPPING DEBT			\$ 59,686,393
COMBINED TOTAL DEBT			\$ 59,686,393 ⁽²⁾

(1) The percentage of overlapping debt applicable to the public utility district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the public utility divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2022-23 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	1.08%
Total Direct Debt	0.00%
Combined Total Debt	1.25%

Source: California Municipal Statistics Inc.

Table #26 - San Diego County Principal Employers

Fiscal Year 2014			Fiscal Year 2023		
Employer Name	Number of Employees	% of Total County Employment	Employer Name	Number of Employees	% of Total County Employment
State of California	40,100	2.69%	Naval Base San Diego ⁽¹⁾	43,003	2.81%
University of California, San Diego	28,341	1.90%	University of California, San Diego ⁽²⁾	35,802	2.34%
County of San Diego	16,627	1.11%	County of San Diego	20,387	1.33%
Sharp Healthcare	16,477	1.10%	Sharp Healthcare ⁽³⁾	19,000	1.24%
Scripps Health	13,717	0.92%	San Diego Unified School District	13,559	0.89%
Qualcomm Inc.	13,700	0.92%	Scripps Health	13,445	0.88%
City of San Diego	10,584	0.71%	City of San Diego	12,777	0.84%
UC San Diego Health System	7,726	0.52%	Qualcomm Inc.	12,500	0.82%
Kaiser Permanente	7,549	0.51%	Kaiser Permanente ⁽¹⁾	9,166	0.60%
General Atomics (and affiliated companies)	6,714	0.45%	San Diego State University	7,104	0.46%
Total Top Ten County Employers	161,535	10.83%	Total Top Ten County Employers	186,743	12.22%
All Other County Employers	1,330,065	89.17%	All Other County Employers	1,341,496	87.78%
Total County Employment	1,491,600	100.00%	Total County Employment	1,528,239	100.00%

Sources:

U.S. Bureau of Labor Statistics; University of California; San Diego County; San Diego Unified; Sharp Healthcare; San Diego Unified School District; Scripps Health; City of San Diego; Qualcomm; San Diego State University

Note:

(1) Data for FY 2023 not available as of publication date. Data shown is for FY 2021.

(2) Number of employees excludes non-academic student staff.

(3) Number of employees is an approximate number.

Table #27 -Outstanding Debt, Demographic Statistics and Per Capita Statistics

Fiscal Year	District's Outstanding Long-Term Debt ⁽¹⁾		Total Outstanding Debt	Demographic Statistics				Per Capita Outstanding Debt	Per Capita Debt as a Percent of Personal Income
	Notes	Contracts		Population Estimate ^{(1) (2)}	Per Capita Personal Income ⁽³⁾	Unemployment Rate ⁽⁴⁾	Total Estimated Personal Income		
2014	-	\$21,810,892	\$21,810,892	32,496	\$ 50,915	6.5%	\$1,654,524,959	\$ 671	1.3%
2015	-	32,389,288	32,389,288	32,626	53,357	5.3%	1,740,843,138	993	1.9%
2016	-	38,841,278	38,841,278	32,757	55,074	4.9%	1,804,078,863	1,186	2.2%
2017	-	37,101,306	37,101,306	32,889	56,969	4.2%	1,873,648,656	1,128	2.0%
2018	-	35,314,028	35,314,028	33,021	59,014	3.7%	1,948,701,294	1,069	1.8%
2019	-	33,474,377	33,474,377	33,153	62,034	3.7%	2,056,613,202	1,010	1.6%
2020	-	⁽⁵⁾ 58,912,499	58,912,499	34,432	67,536	13.5%	2,325,399,552	1,711	2.5%
2021	-	⁽⁶⁾ 88,278,477	88,278,477	34,570	73,350	7.0%	2,535,689,549	2,554	3.5%
2022	-	⁽⁷⁾ 91,537,961	91,537,961	34,708	74,326	3.4%	2,579,707,322	2,637	3.5%
2023	-	⁽⁷⁾ 89,336,642	89,336,642	34,847	77,299	4.0%	2,693,627,197	2,564	3.3%

Sources:

(1) - Fallbrook Public Utility District

(2) - <https://datasurfer.sandag.org/>

(3) - U.S. Department of Commerce, Bureau of Economic Analysis, and Federal Reserve Bank of St. Louis (FRED)

(4) - U.S. Bureau of Labor Statistics, June 2023 unemployment rate

Notes:

(1) - Debt secured by District's net revenues

(2) - Historic population estimated based upon a 0.4% growth rate and the 2020 population estimate of 34,432 calculated by FPUD GIS staff.

(3) - Per capita personal income for the San Diego County Region.

(4) - June 2023 unemployment rate.

(5) - Includes \$27.3 million in construction expenses/withdrawals.

(6) - Includes \$58.5 million in construction expenses/withdrawals.

(7) - Includes \$63.9 million in construction expenses/withdrawals.

CONTINUING DISCLOSURE



November 15, 2023

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Fallbrook, California
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(760) 728-1125

Board of Directors

Dave Baxter
Division 1

Ken Endter
Division 2

Jennifer DeMeo
Division 3

Don McDougal
Division 4

Charley Wolk
Division 5

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
Board Secretary*

General Counsel

Paula de Sousa
Best Best & Krieger

Subject: 2023 Annual Continuing Disclosure Report

We are pleased to present the Fallbrook Public Utility District's (District's) Annual Continuing Disclosure Report (Report) for Fiscal Year ending June 30, 2023. On January 12, 2021, the District issued \$19,880,000 in 2021 Wastewater Revenue Refunding Bonds Series A and Series B (collectively 2021 Bonds). The 2021 Bonds were issued to refund the outstanding principal of a California State Water Resources Control Board loan. The 2021 Bonds are payable from and secured by a pledge of Wastewater System Net Revenues, as defined by the Official Statement dated January 12, 2021 (2021 Official Statement).

This Report has been produced pursuant to the District's 2021 Bonds Continuing Disclosure Certificate (Certificate) covenants, in order to provide required information to the marketplace as provided for under S.E.C. Rule 15c2-12(b)(5). This information is for the benefit of interested parties and includes the information specified in the Certificate. For further information and a more complete description of the District and the 2021 Bonds please refer to the 2021 Official Statement.

The information set forth herein has been furnished by the District and by other sources, which is believed to be accurate and reliable, but is not guaranteed as to accuracy or completeness. Statements contained in this Report that involve estimates, forecasts, or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. Further, the information and expressions of opinion contained herein speaks only as of its date and are subject to change without notice and neither the District, nor the Trustee have any obligation to update this Report, other than as expressly provided in the Certificate. The delivery of this Report will not, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein or to the information provided in any final official statement.

Jack Bebee
General Manager

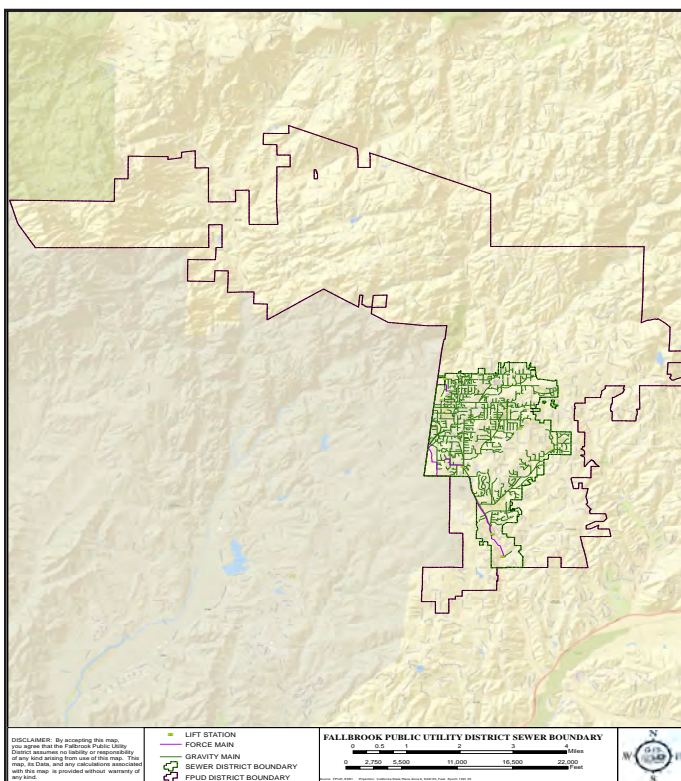
David Shank
Assistant General Manager/CFO

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District Sewer Boundary



I. Introduction

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles).

The District's scope of operations grew in 1994 when the Fallbrook Sanitary District merged with the District. It had provided parts of Fallbrook with recycled water and wastewater service within a 4,200-acre area of downtown (as shown in the figure to the left). The District took over those services, and the same year the playing fields at Fallbrook High School started receiving reclaimed water as its source of irrigation water and so did two new large nurseries. In 2015, the District completed a major overhaul, upgrade and expansion of the Plant. The \$27 million project took three years to complete, replacing aged and aging equipment, and allowed for a substantial expansion of the District's recycled water distribution system. The overhaul involved upgrades to the existing Plant to improve reliability in operation and created much-needed storage space for recycled water.

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 12-mile ocean outfall line.

II. Bond Information

Principal Outstanding

Bond Issues	As of June 30, 2023
2021 Wastewater Revenue Refunding Bonds Series A	\$14,845,000
2021 Wastewater Revenue Refunding Bonds Series B	2,810,000

III. Financial Information

The audited financial statements for the District for the fiscal year ended June 30, 2023 have been filed separately on EMMA and are hereby incorporated by reference into this Report.

IV. Operating Information

The following table shows the number of residential and non-residential connections for the Wastewater System for the years shown.

Table #1 - Number and Type of Wastewater Connections

As of June 30,	Residential	Non-Residential	Total
2018	4,641	408	5,049
2019	4,621	383	5,004
2020	4,630	381	5,011
2021	4,654	375	5,029
2022	4,659	373	5,032
2023	4,662	377	5,039

Source: Fallbrook Public Utility District

The following table shows the ten largest customers of the Wastewater System as of June 30, 2023 based on charges billed.

Table #2 - Ten Largest Wastewater Customers as of June 30, 2023

No.	Customer	Type of Business	Revenues	% of Total Revenues ⁽¹⁾
1	VALLEY VIEW MOBILE LODGE	Residential	\$ 93,598	1.15%
2	CPI GV CRESTVIEW ESTATES OW LLC	Residential	58,446	0.72%
3	FALLBROOK HILLS APARTMENTS	Residential	57,338	0.70%
4	SUMMER RIDGE APARTMENTS	Residential	54,339	0.67%
5	CORTEZ APARTMENTS	Residential	51,659	0.63%
6	PINEVIEW PRESERVATION LP	Residential	48,894	0.60%
7	REED & BROOKE APARTMENTS	Residential	46,966	0.58%
8	TURNAGAIN ARMS APARTMENTS	Residential	46,200	0.57%
9	FALLBROOK UNION HIGH SCHOOL DISTRICT	High School	45,034	0.55%
10	SUNSHINE PARK ESTATES	Residential	41,797	0.51%
Total, Top 10 Customers			\$ 544,271	6.68%

(1) Based on total Service Charges and CIC Charges for Fiscal Year 2022-23 of \$8,152,656.

Source: Fallbrook Public Utility District

The following table sets forth the historical average daily wastewater flow to the WRP for the fiscal years shown.

Table #3 - Historical Average Daily Flow at WRP

As of June 30,	Average Daily Sewer Flow (MGD)	Average Daily Sewer Flow (AF)
2010	1.73	5.30
2011	1.74	5.35
2012	1.67	5.13
2013	1.53	4.69
2014	1.48	4.54
2015	1.54	4.73
2016	1.37	4.20
2017	1.39	4.26
2018	1.33	4.09
2019	1.52	4.68
2020	1.51	4.63
2021	1.51	4.63
2022	1.51	4.63
2023	1.64	5.03

Source: Fallbrook Public Utility District

The following table shows the current and projected sewer services charges of the District.

Table #4 - Monthly Sewer Service Charges

	Effective Jan. 1, 2018	Effective Jan. 1, 2019	Effective Jan. 1, 2020	Effective Jan. 1, 2021	Effective Jan. 1, 2022	Effective Jan. 1, 2023
Monthly Fixed Charge Per EDU⁽¹⁾						
Wastewater Charge-Combined ⁽²⁾	\$ 9.28	\$ 9.70	\$ 10.14	\$ 10.60	\$ 11.08	N/A
Residential/Domestic	N/A	N/A	N/A	N/A	N/A	\$ 18.88
Commercial/Government	N/A	N/A	N/A	N/A	N/A	12.14
Capital Improvement Charge (CIC) ⁽³⁾	11.16	11.53	11.62	11.63	11.68	12.66
Monthly Variable Charge Per 1,000 Gallons⁽⁴⁾						
Single-Family, Multi-Family & Ag. Domestic	\$ 9.44	\$ 9.86	\$ 10.32	\$ 10.79	\$ 11.28	\$ 10.22
Gov't, Schools, Churches & Low-Strength Commercial	9.37	9.79	10.25	10.72	11.20	11.09
Medium-Strength Commercial	11.57	12.09	12.65	13.22	13.81	13.82
High-Strength Commercial	14.44	15.09	15.77	16.48	17.22	17.66

Notes:

(1) See Fallbrook Public Utility District Administrative Code Article 11 Section 11.7 for the Schedule of Equivalent Dwelling Units (EDUs) Methodology based on EDUs became effective January 1, 2018.

(2) The 2022 rate study changed the monthly fixed charge methodology effective January 1, 2023.

(3) Each January 1, the District is authorized to increase the Wastewater CIC in accordance with the Engineering News Record Construction Cost Index of February for Los Angeles of the preceding year ("ENR CCI"), not to exceed 10% annually.

(4) Residential variable charge based on 2-year adjusted average winter water usage. Commercial variable charge is based on adjusted monthly water usage.

Source: Fallbrook Public Utility District

The following table sets forth the historical assessed values for the fiscal years shown, for “Improvement District “S” which corresponds to the former geographic boundaries of the Fallbrook Sanitary District which was merged into the District and became the Wastewater System.

Table #5 - Historical Assessed Valuations-Improvement District “S”

Fiscal Year	Local Assessed	State Assessed	Unsecured Value	Total	% Change
2010	\$ 1,821,146,148	\$ 225,000	\$ 36,302,150	\$ 1,857,673,298	0.0%
2011	1,781,731,084	225,000	37,141,389	1,819,097,473	-2.1%
2012	1,783,734,000	225,000	33,883,225	1,817,842,225	-0.1%
2013	1,773,732,093	225,000	35,613,386	1,809,570,479	-0.5%
2014	1,811,990,591	-	34,916,821	1,846,907,412	2.1%
2015	1,928,060,834	-	35,184,912	1,963,245,746	6.3%
2016	2,021,437,198	-	32,152,307	2,053,589,505	4.6%
2017	2,098,501,032	-	31,163,876	2,129,664,908	3.7%
2018	2,220,524,962	-	31,902,804	2,252,427,766	5.8%
2019	2,337,209,037	-	35,075,356	2,372,284,393	5.3%
2020	2,463,512,540	-	35,305,514	2,498,818,054	5.3%
2021	2,583,369,560	-	37,819,020	2,621,188,580	4.9%
2022	2,663,835,892	-	32,536,269	2,696,372,161	2.9%
2023	2,878,119,724	-	41,126,926	2,919,246,650	8.3%

Source: Fallbrook Public Utility District; San Diego County Auditor-Controller

The following table sets forth the top 20 taxpayers within Improvement District “S” for Fiscal Year 2022-2023.

Table #6 - Top Taxpayers in Improvement District “S”

No.	Taxpayer	Primary Land Use	FY 2022-23 Assessed Valuation	% of Total
1	Contour PropCo 1735 S Mission LLC	Assisted Living Facility	\$ 31,612,488	1.10%
2	Vista Fortuna LLC	Shopping Center	24,482,500	0.85%
3	Albertsons LLC	Supermarket	20,891,221	0.73%
4	Americare Health & Retirement LLC	Assisted Living Facility	18,383,121	0.64%
5	CPI/GV Crestview Estates Owner LLC	Mobile Home Park	14,716,498	0.51%
6	Sheryl A. Hailey	Residential Properties	13,904,918	0.48%
7	Axelgaard Manufacturing Co. Ltd.	Industrial	13,512,501	0.47%
8	Hampton Family Trust	Residential Properties	9,955,426	0.35%
9	Amber Creek Associates Ltd.	Apartments	9,723,018	0.34%
10	BRCC Investments LLC	Shopping Center	9,649,817	0.34%
11	Fallbrook Village Apartments LLC	Apartments	9,066,531	0.32%
12	Fallbrook Plaza LLC	Shopping Center	8,668,496	0.30%
13	Rec Properties LLC	Apartments	8,583,304	0.30%
14	Fallbrook Medical Arts LLC	Medical Offices	8,500,000	0.30%
15	Ark Properties LLC	Public Storage	8,247,913	0.29%
16	Fallbrook Hills Apartments LLC	Apartments	8,219,446	0.29%
17	J & V Vozza No. 1 LLC	Apartments	7,885,043	0.27%
18	Sunset Views Apartments LLC	Apartments	7,808,629	0.27%
19	Old Vine Apartments LLC	Apartments	7,516,040	0.26%
20	Felipe and Concepcion Jimenez	Apartments	7,376,882	0.26%
	Total, Top 20 Customers		\$ 248,703,792	8.64%
	Total Assessed Value, All Taxpayers		\$ 2,878,119,724	

Source: California Municipal Statistics

The following table presents historical Wastewater Fund revenues, expenses and debt service coverage for Fiscal Years 2018-19 to 2022-23.

Table #7 - Wastewater Revenues, Expenses and Debt Service Coverage

Fiscal Year Ending June 30,	2019	2020	2021	2022	2023
Operating Revenues:					
Service Charges	\$ 5,453,590	\$ 5,924,878	\$ 5,993,042	\$ 6,323,887	\$ 7,048,717
Other Charges	10,230	6,590	1,382	12,966	11,073
Sub-Total	\$ 5,463,820	\$ 5,931,468	\$ 5,994,424	\$ 6,336,853	\$ 7,059,790
Operating Expenses (Excludes Depreciation):					
Operations & Maintenance	\$ 2,956,457	\$ 3,286,965	\$ 3,188,427	\$ 3,827,472 ⁽¹⁾	\$ 2,484,939 ⁽²⁾
Administrative & General	2,090,222	2,178,369	2,207,487	2,378,061	2,550,129
Sub-Total	\$ 5,046,679	\$ 5,465,334	\$ 5,395,914	\$ 6,205,533	\$ 5,035,068
Net Operating Income	\$ 417,141	\$ 466,134	\$ 598,510	\$ 131,320	\$ 2,042,722
Non-Operating Revenues (Expenses)					
Property Taxes	\$ 1,015,057	\$ 1,066,408	\$ 1,069,872	\$ 1,094,591	\$ 1,199,210
Capital Improvement Charges	1,162,117	1,168,350	1,171,245	1,179,305	1,241,192
Investment Income ⁽³⁾	84,296	131,547	71,912	82,914	137,514
Connection Fees	133,729	123,762	39,579	95,944	74,087
Sub-Total	\$ 2,395,199	\$ 2,490,067	\$ 2,352,608	\$ 2,452,754	\$ 2,652,003
NET REVENUES	\$ 2,812,340	\$ 2,956,201	\$ 2,951,118	\$ 2,584,075	\$ 4,676,725
Debt Service Expense:					
2010 Agreement (net of subsidy) ⁽⁴⁾	\$ 379,131	\$ 391,696	\$ 408,435	\$ 422,072	\$ 436,062
SRF Loan	1,845,746	1,845,746	1,750,772	-	-
2021 Refunding Bonds	-	-	22,271	1,729,884	1,731,022
Sub-Total	\$ 2,224,877	\$ 2,237,442	\$ 2,181,478	\$ 2,151,956	\$ 2,167,084
Debt Service Coverage (DSC)	1.26	1.32	1.35	1.20	2.16
QECB Loan Subsidy:					
Gross Interest Subsidy Rate (%)	70.0%	70.0%	70.0%	70.0%	70.0%
Sequestration Rate (%)	6.2%	5.9%	5.7%	5.7%	5.7%
Net Interest Subsidy Rate (%)	65.7%	65.9%	66.0%	66.0%	66.0%

(1) GASB 68 expense has been reduced by \$415,078.45 to reflect the non-cash cost of CalPERS risk mitigation and discount rate reduction.

(2) GASB 68 credit of \$401,220.00 is included to reflect the extraordinary impact of the CalPERS risk mitigation and discount rate reduction.

(3) Investment Income excludes the mark-to-market investment gain and investment earnings on the District's 115 Trust.

(4) Amount shown is net of the 70% interest rate subsidy, adjusted for a sequestration rate of 5.7%.

Source: Fallbrook Public Utility District

V. Significant Events

Pursuant to the provisions of the Continuing Disclosure Certificate, the District shall provide, in a timely manner and in no event in excess of ten (10) Business Days after the occurrence of such Significant Event, notice of such Significant Event with the MSRB. No significant events were observed during the reporting period. For a list of Significant Events please refer to the 2021 Official Statement.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

DEFINITIONS; RULES OF CONSTRUCTION

Definitions

Unless the context clearly otherwise requires or unless otherwise defined in the Indenture, the capitalized terms defined in the Indenture have the respective meanings specified when used in the Indenture.

“Additional Revenues” means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

- (i) An allowance for Net Revenues from any additions or improvements to or extensions of the Water System to be made from the proceeds of such Parity Debt in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a Financial Consultant.
- (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Water System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District under the Indenture, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

“Bond Counsel” means (a) Best Best & Krieger LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Law” means the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

“Bonds” means Fallbrook Public Utility District 2024 Water Revenue Bonds issued and at any time Outstanding under the Indenture.

“Bond Year” means the period beginning on the Closing Date and ending on December 1, 2024 and thereafter the period beginning on each December 2 and ending on the following December 1.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the Office of the Trustee is located or Insurer, and on which the Federal Reserve Bank system is not closed.

“Certificate of the District” means a certificate in writing signed by the President of the Board of Directors of the District, the General Manager of the District or, the Assistant General Manager/Chief Financial Officer of the District.

“Closing Date” means March 14, 2024, being the date of delivery of the Bonds to the Original Purchaser.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate described in the Indenture.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisor, underwriter, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds, including bond insurance premium.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Debt Service” means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

- (a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;
- (b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and
- (c) as to any such Bonds or Parity Debt bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greatest of (a) the actual interest rate on such Bonds or Parity Debt on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding), (b) if the Bonds or Parity Debt have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation, and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published) plus 50 basis points, or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of the Parity Debt and Amount of Rates and Charges sections of the Indenture, measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

“Debt Service Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under the Indenture.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“District” means the Fallbrook Public Utility District, a public utility district duly organized and existing under the Constitution and laws of the State of California, and any successor thereto.

“DTC” means The Depository Trust Company, and its successors and assigns. “Event of Default” means any of the events described in the Indenture.

“Federal Securities” means: (a) non-callable direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America; (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; or (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

“Financial Consultant” means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of water systems; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or such other period as may be established by the District as its official fiscal year period (written notice of which shall be given by the District to the Trustee).

“Gross Revenues” means: (1) all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) rebates or incentives paid to the District as a result of installed renewable energy generation projects or energy efficiency measures that benefit the operation of the Water System, (c) amounts transferred from the Rate Stabilization Fund and (d) investment earnings on amounts held in the Water Fund or in any other fund established with respect to the Water System; and (2) Tax Revenues. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions of the Indenture.

“Independent Accountant” means any accountant or firm of such accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, with the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other audits of the books of or reports to the District.

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

“Insured Bonds” means the serial Bonds maturing in the years 2030 through 2043 and the term Bonds maturing in 2049 and 2053.

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

“Interest Payment Date” means June 1 and December 1 in each year, commencing December 1, 2024, and continuing so long as any Bonds remain Outstanding.

“Moody’s” means Moody’s Investors Services, and its successors and assigns.

“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” means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under the Indenture.

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in the Indenture, or at such other or additional offices as may be specified by the Trustee in writing to the District; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of treating water, (b) costs of electricity and other forms of energy supplied to the Water System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System. Operation and Maintenance Costs does not include (i) Debt Service payable on obligations incurred by the District with respect to the Water System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Original Purchaser” means Stifel, Nicolaus & Company, Incorporated, as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District has been discharged in accordance with the Indenture; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under the Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under the Indenture.

“Owner” when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Debt” means (a) the State Revolving Fund construction loan and grant between the State Department of Public Health and the District, dated June 21, 2010 (“2010 SRF Loan”) and a Construction Installment Sale Agreement No. SWRCB0000000000D 180202000, by and between the California State Water Resources Control Board and the District, approved in 2018 and dated August 28, 2019, as amended (“2019 SRF Loan”) and (b) all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and secured by a pledge of and lien on any of the Net Revenues issued or incurred on a parity with the Bonds under the Indenture.

“Parity Debt Documents” means documents related to the 2010 SRF Loan and 2019 SRF Loan such as indentures, installment purchase agreements and other loan documents entered in compliance with the Indenture.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely on a Request of the District directing investment in such Permitted Investment as a certification by the District to the Trustee that such Permitted Investment is a legal investment under the laws of the State), but only to the extent that the same are acquired at fair market value:

- (a) direct 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 any Federal Reserve Bank and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;
- (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities shall constitute Eligible Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, General Services Administration, U.S. Maritime Administration, U.S. Department of Housing and Urban Development, Government National Mortgage Association, and Federal Housing Administration obligations;
- (c) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Eligible Securities only if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”), Student Loan Marketing Association, Resolution Funding Corporation or Farm Credit System;
- (d) bonds or notes issued by any state or municipality, or political subdivisions thereof, which are rated by S&P, Fitch or Moody’s in one of the three highest rating (without regard to qualifier) categories assigned by such agencies;
- (e) repurchase agreements with a primary dealer on the reporting dealer list of the Federal Reserve, or any bank, or any other financial institution, which, in any case, has capital of not less than \$500 million and which has, or is guaranteed by an entity which has, long-term ratings, at the time of purchase, in the “A” category (without regard to modifiers) or better by at least two of the following rating agencies: S&P, and Moody’s, and or Fitch; and which has a minimum short-term rating of no less than “A-1” or equivalent (A-1/P-1/F1), at the time of purchase, by at least two of the following rating agencies: S&P,

Moody's, or Fitch, provided that the Trustee or third party acting solely as agent for the Trustee has possession of the collateral and the collateral is valued weekly with deficiencies to be cured within two (2) days and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA or States or Municipalities, 105%) of the amount of cash transferred by the Trustee to the repurchase agreement provider under the repurchase agreement plus interest, (iv) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral, and (v) there shall have been delivered to the Trustee and the District an Opinion of Counsel as to the validity, legality and enforceability of the repurchase agreement;

- (f) investment agreements, including guaranteed investment contracts ("GICs") with providers in one of the two highest rating categories (without regard to qualifier) of Moody's and S&P
- (g) money market funds registered under the Federal Investment Company Act of 1940, and having a rating, at the time of purchase, by S&P or Moody's in the highest rating category thereof," including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;
- (h) certificates of deposit or similar bank deposit products secured at all times by collateral described in (a) and/or (b) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Trustee on behalf of the Bondholders has a perfected first security interest;
- (i) certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF;
- (j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating, at the time of purchase, of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P;
- (k) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;
- (l) the State of California's Pooled Money Investment Account;
- (m) the State of California's Local Agency Investment Fund; and
- (n) any other investments which meet the criteria established by applicable published investment guidelines issued by each rating agency then rating the Bonds.

“Project” capital improvements to the Water System, including but not limited to repair and replacement of water pipeline throughout the District.

“Project Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Rate Stabilization Fund” means the fund by that name that is established and held by the District pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day.

“Registration Books” means the books maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

“Request of the District” means a request in writing signed by the President of the Board of Directors of the District, the General Manager of the District, the Assistant General Manager & Chief Financial Officer of the District or any other officer of the District duly authorized by the Board of Directors for that purpose.

“S&P” means S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, and its successors and assigns.

“Securities Depositories” means DTC; 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 Request of the District delivered by the District to the Trustee.

“Supplemental Indenture” means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with the Indenture.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Tax Revenues” means the amount of property tax revenues (as defined in Section 95 of the Revenue and Taxation Code of the State of California) apportioned, allocated and paid by the County Tax Collector to the District that are allocable to the Water Fund.

“Trustee” means U.S. Bank Trust Company, National Association, as Trustee under the Indenture, or any successor thereto appointed as Trustee under the Indenture.

“Water Fund” means the fund or funds established and held by the District with respect to the Water System for the deposit of Gross Revenues.

“Water System” means all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the production, transmission, distribution and sale of water and all additions, extensions, expansions, improvements and betterments thereto, and equipping thereof; provided, however, that to the extent the District is not the sole owner of an asset or property, only the District’s ownership interest in such asset or property shall be considered to be part of the Water System.

Authorization

Each of the parties to the Indenture represents and warrants that it has full legal authority and is duly empowered to enter into the Indenture, and has taken all actions necessary to authorize the execution of the Indenture by the officers and persons signing it.

Interpretation

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections in the Indenture and the table of contents thereof are solely for convenience of reference, do not constitute a part of the Indenture and do not affect the meaning, construction or effect of the Indenture.

(c) All references in the Indenture to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subdivision of the Indenture.

ISSUE OF BONDS; PARITY DEBT

Issuance of Bonds

Upon the execution and delivery of the Indenture, the District shall execute and deliver the Bonds in the aggregate principal amount of \$11,205,000, the Trustee shall authenticate and deliver the Bonds to the Original Purchaser upon receipt of a Request of the District therefor.

Costs of Issuance Fund; Project Fund

(a) Costs of Issuance Fund. The Indenture establishes a separate fund to be known as the “Costs of Issuance Fund”, to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the District stating (i) the person to whom payment is to be made, (ii) the amounts to be paid, and (iii) the purpose for which the obligation was incurred; in each case together with a statement or invoice for each amount requested thereunder. Each such Request of the District shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. One hundred and eighty (180) days after the Closing Date, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

(b) Project Fund. The Indenture establishes a separate fund to be known as the “Project Fund”, to be held by the Trustee in trust for the District. Into the Project Fund, the Trustee shall deposit \$11,774,037.73 from the proceeds of the Bonds and other available moneys. The Trustee shall disburse moneys in the Project Fund from time to time to pay Project costs (or to reimburse the District, respectively, for payment of Project costs) upon receipt by the Trustee of a written requisition of an Authorized Representative, the form of which is attached the Indenture which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Project Fund and has not previously been disbursed by the

Trustee from amounts in the Project Fund, (v) that all conditions precedent set forth in the Indenture with respect to such disbursement have been satisfied, and (vi) that the amount of such disbursement is for a Project cost and (b) specifies in reasonable detail the nature of the obligation. The Trustee shall not be responsible for the representations made in such written requisitions and may conclusively rely thereon and shall be under no duty to investigate or verify any statements made therein. Interest earnings on the investment of funds on deposit in the Project Fund shall be retained in therein. Upon the filing with the Trustee of a written certificate of an Authorized Representative stating that the Project has been completed or that all written requisitions intended to be filed have been filed, the Trustee shall withdraw all amounts then on deposit in the Project Fund and transfer such amounts to the Principal Fund.

Notwithstanding the foregoing provisions of this Section, upon the occurrence and continuation of a payment Event of Default, the Trustee shall promptly withdraw all amounts then on deposit in the Project Fund and apply such amounts in accordance with the provisions of the Indenture.

Issuance of Parity Debt

The District may issue Parity Debt in such principal amount as it determines, subject to the following conditions precedent:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all grace periods have passed, would constitute an Event of Default) has occurred and is continuing.

(b) The amount of Net Revenues, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District any Additional Revenues, are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued;

(c) The total amount of outstanding and proposed variable-rate debt of the District may not exceed 12% of the total principal amount of all outstanding and proposed debt that is secured by Net Revenues of the District; and

(d) The District shall deliver to the Trustee a Certificate of the District certifying, that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing subsections have been satisfied.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Revenues shall not include connection fees, transfers from the Rate Stabilization Fund (if any), or interest income received by the Water Fund during the period for which the calculation of Net Revenues is being made.

State Loans

The District may borrow money from the State and incur State Loans to finance improvements to the Water System. A State Loan may be treated as a Parity Debt for purposes of the Indenture, so long as the District complies with the Indenture before incurring said State Loan.

Validity of Bonds

The recital contained in the Bonds that they are issued under the Laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

REVENUES; FLOW OF FUNDS

Pledge of Net Revenues; Debt Service Fund

The Debt Service Fund, as a special fund, is created by the Indenture. The Debt Service Fund shall be held and maintained by the Trustee. Within such Debt Service Fund there shall be held and maintained by the Trustee the Interest Account, the Principal Account and the Sinking Fund Account. The Bonds and all Parity Debt are secured by a first pledge of and lien on all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys. The Bonds and any Parity Debt are equally secured by a pledge, charge and lien upon the Net Revenues, without priority for series, issue, number or date, and the payment of the interest on and principal of the Bonds and Parity Debt shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues. So long as any of the Bonds and Parity Debt are Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

Receipt, Deposit and Application of Net Revenues

(a) Establishment and Maintenance of Water Fund. The District has previously established the Water Fund, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. The District shall deposit all Revenues in the Water Fund promptly upon the receipt thereof, and shall apply amounts in the Water Fund solely for the uses and purposes set forth in the Indenture and for the uses and purposes set forth in any Parity Debt Documents.

(b) Application of Amounts in Water Fund. In addition to transfers which are required to be made for repayment of any Parity Debt, which shall be made on a parity basis with amounts required to be made for repayment of the Bonds, the District shall withdraw amounts on deposit in the Water Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(i) Operation and Maintenance Costs. The District shall apply amounts on deposit in the Water Fund to pay all Operation and Maintenance Costs when due.

(ii) Debt Service Fund. At least 5 days prior to each Interest Payment Date, the District shall transfer from Net Revenues to the Trustee for the purpose of paying the Bonds and all Parity Debt payable by the Trustee. Not later than the first Business Day preceding each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Debt Service Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Debt Service Fund), the following amounts in the following order of priority, the requirements of each such account at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Interest Account. The Trustee shall deposit in the Interest Account an amount 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 Bonds and Parity Debt payable by the Trustee then Outstanding.

(b) Principal Account. The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds and all Parity Debt payable by the Trustee coming due and payable on the Interest Payment Date on which such principal becomes due.

(c) Sinking Account. The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

The Trustee shall make claims on the Insurance Policy at the times and in the manner set forth in the Indenture.

(iii) Other Lawful Uses. So long as no Event of Default has occurred and is continuing and after the application of the Revenues as provided in the Indenture, the District may at any time use and apply moneys in the Water Fund for any one or more of the following purposes:

(A) the payment of any subordinate obligations or any unsecured obligations;

(B) the acquisition and construction of extensions and improvements to the Water System;

(C) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Water System; or

(D) any other lawful purpose of the District.

Application of Debt Service Fund

Moneys in the Debt Service Fund shall be applied as follows:

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

(b) Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

(c) Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing Bonds (in lieu of redemption) pursuant to the Indenture.

Establishment of Rate Stabilization Fund

The District has established a "Rate Stabilization Fund," which it holds and administers in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the District with respect to the Water System. From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the District may determine. The Rate Stabilization Fund is currently unfunded.

The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund shall not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Water System.

Equal Rights

It is the intention of the District that the Bonds and Parity Debt of the Water System shall be secured by and payable from all moneys deposited in the Water Fund on an equal basis. To the extent that moneys deposited in the Water Fund are insufficient to pay debt service on the Bonds and Parity Debt of the Water System as it becomes due, the Bonds and Parity Debt of the Water System shall be payable on a pro-rata basis from all available moneys deposited in the Water Fund.

Investments

(a) Investment of Funds Held by District. All moneys in the Water Fund and the Rate Stabilization Fund shall be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control.

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it under the Indenture (being the Debt Service Fund and the accounts therein, and the Project Fund) in Permitted Investments specified in the Request of the District delivered to the Trustee at least two Business Days in advance of the making of such investments. The Trustee may rely conclusively upon the investment direction of the District as to the suitability and legality of the directed investments. In the absence of any such direction from the District, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Request of the District specifying a specific money market mutual fund that satisfies the requirements of said paragraph in which such investment is to be made and, if no such Request of the District is so received, the Trustee shall notify the District that a Request of the District is needed and until received, funds are to be held in cash.

(c) General Investment Provisions. Parity Debt purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in the Indenture the District is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be retained in the respective fund or account from which such investment was made. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture upon receipt by the Trustee of the Request of the District. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee has no liability for losses arising from any investments made under the Indenture.

The District acknowledges that to the extent 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, at no additional cost, the District specifically waives receipt of such

confirmations to the extent permitted by law. The Trustee will furnish the District periodic transaction statements which include detail for all investment transactions 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.

Valuation and Disposition of Investments

(a) Except as otherwise provided in the Indenture, the District covenants that all investments of amounts deposited in any fund or account created by or under the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value as such term is defined in the Indenture.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at cost thereof (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the District must inform the Trustee which funds are subject to a yield restriction, and must provide the Trustee with any necessary valuation criteria or formulae.

(c) Except as provided in the proceeding subsection of the Indenture, for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof, on December 1 of each year. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow: (i) its normal practices in the purchase, sale and determining the value of Permitted Investments; and (ii) the investment directions of the District. The Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the District in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom. In determining the Fair Market Value of Authorized Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

(d) For purposes of the Indenture, the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

FINANCIAL COVENANTS

Punctual Payment; Compliance With Documents

The District shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures.

Discharge of Claims

The District covenants that in order to fully preserve and protect the priority and security of the Bonds the District shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The District shall also pay, from the Net Revenues, all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Net Revenues therefrom.

Operation of Water System in Efficient and Economical Manner

The District covenants and agrees to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

Sale or Eminent Domain of Water System

Except as provided in the Indenture, the District covenants that the Water System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole, if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the principal of or interest on the Bonds or any Parity Debt, or would materially adversely affect its ability to comply with the terms of the Indenture or any Parity Debt Documents. The District may not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Net Revenues to pay the Bonds and any Parity Debt, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

The Net Proceeds received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall, at the written direction of the District, either (a) be used for the acquisition or construction of improvements and extension of the Water System, or (b) be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with the Indenture and the related Parity Debt Documents.

Insurance

The District will at all times maintain with responsible insurers all such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water System. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds. Any insurance required by the Indenture may be maintained by the District in the form of self-insurance through a joint

powers agreement or otherwise. The Trustee has no liability to determine whether the District is in compliance with the provisions of the Indenture.

The Net Proceeds collected by the District from insurance against accident to or destruction of any portion of the Water System shall be used to repair or rebuild such damaged or destroyed portion of the Water System.

Records and Accounts

The District will keep proper books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon reasonable request, be subject to the inspection of the Trustee and the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The District shall cause the books and accounts of the Water System to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

The Insurer shall be provided with, to the extent not otherwise filed with the Municipal Securities Rulemaking Board's EMMA system, annual audited financial statements within the filing deadline specified in the District's Continuing Disclosure Certificate, covenant or undertaking with respect to the Bonds (together with a certification of the District that it is not aware of any default or Event of Default under the Indenture), and, upon request, the District's annual budget within thirty (30) days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time. The District shall provide such other information to the Insurer as may be requested in the Indenture.

Rates and Charges

The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose; and
- (c) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers from the Rate Stabilization Fund into the Water Fund in such Fiscal Year are included in the calculation of Net Revenues, as provided in the Indenture, and (b) any transfers from

the Water Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Gross Revenues received by the District during that Fiscal Year.

Superior and Subordinate Obligations; Parity Debt

The District may not issue or incur any additional bonds or other obligations having any priority over the Bonds in the payment of principal or interest out of the Net Revenues. Nothing in the Indenture limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture. Parity Debt may be issued or incurred only in accordance with the Indenture.

Tax Covenants

(a) The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, interest on the Bonds to become includable in gross income for federal income tax purposes.

(b) The District shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become “private activity bonds” within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

(c) The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

(d) The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.

(e) The District shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the District.

The Trustee has no duty to monitor the compliance by the District with any of the covenants contained in the Indenture.

Continuing Disclosure

The District will comply with and carry out all of the provisions of the Continuing Disclosure Certificate which has been executed and delivered by the District on the Closing Date. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate does not constitute an Event of Default under the Indenture; provided, however, that any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this the Indenture.

Further Assurances

The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds and the Trustee the rights and benefits provided in the Indenture.

Additional Contracts

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

Interest Rate Exchange Agreement

The District shall not enter into any interest rate exchange agreement, or any other interest rate maintenance agreement secured by and payable from the Net Revenues of the Water System without the prior written consent of the Insurer.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee

(a) Performance of Duties. The Trustee shall, prior to the occurrence of 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 specifically set forth in the Indenture and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee shall, 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 reasonable corporate trustee would exercise or use.

(b) Removal of Trustee. The District may remove the Trustee upon 30 days' prior written notice, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) 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. The District may accomplish such removal by giving 30 days' prior written notice to the Trustee, whereupon the District will appoint a successor Trustee by an instrument in writing.

(c) Resignation by Trustee. The Trustee may at any time resign by giving written notice of such resignation to the District and the Insurer, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners at their respective 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) Appointment of Successor Trustee. 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 accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the retiring Trustee, any Owner (on behalf of

such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the District, the Insurer and to its predecessor Trustee a written acceptance thereof, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions 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 shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating District which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

(e) Qualifications of Trustee. Any Trustee appointed under the provisions of the Indenture in succession to the Trustee must:

- (i) be a company, national banking association or bank having trust powers,
- (ii) have a corporate trust office in the State of California,
- (iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least \$75,000,000, and
- (iv) be subject to supervision or examination by federal or state authority.

If such bank, national banking association or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection of the Indenture the combined capital and surplus of such bank, national banking association or company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

The District will maintain a Trustee which is qualified under the provisions of the Indenture, so long as any Bonds are Outstanding.

Merger or Consolidation

Any bank, national banking association or company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank, national banking association or company resulting from any merger, conversion or consolidation to which it shall be a party or any bank,

national banking association or company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or company shall be eligible under the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything to the contrary in the Indenture notwithstanding.

Rights and Liabilities of Trustee

(a) The recitals of facts in the Indenture and in the Bonds contained are taken as statements of the District, and the Trustee has no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor make any representations as to the validity or sufficiency of the Indenture or of the Bonds nor shall it incur any responsibility in respect thereof, other than as expressly stated in the Indenture. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the 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 is not liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any 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 the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the District.

(b) The Trustee has no liability with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the 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.

(c) The Trustee has no liability 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, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated under the Indenture is not construed as a mandatory duty.

(d) The Trustee will not be deemed to have knowledge of any Event of Default under the Indenture unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written notice thereof at its Office. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default under the Indenture. The Trustee is not responsible for the District's payment of principal and interest on the Bonds, the District's observance or performance of any other covenants, conditions or terms contained in the Indenture, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything to the contrary in the Indenture, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee under the Indenture and may rely conclusively on a Certificate of the District (if any) to establish the District's compliance with its financial covenants under the Indenture, including, without limitation, its covenants regarding the deposit of Gross Revenues into the Water Fund and the investment and application of moneys on deposit in the Water Fund (other than its covenants to transfer such moneys to the Trustee when due under the Indenture).

(e) No provision in the Indenture requires the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture. The Trustee is entitled to receive interest on any moneys advanced by it under the Indenture, at the maximum rate permitted by law.

(f) The Trustee may establish additional accounts or subaccounts of the funds established under the Indenture as the Trustee deems necessary or prudent in furtherance of its duties under the Indenture.

(g) The Trustee has no responsibility or liability whatsoever 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 Bonds, nor shall the Trustee have any obligation to review any such material, and any such review by the Trustee will not be deemed to create any obligation, duty or liability on the part of the Trustee.

(h) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, have the right (but not the duty) fully to inspect the Water System, including all books, papers and records of the District pertaining to the Water System and the Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(i) Before taking any action under the Indenture, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to hold the Trustee harmless from any expenses whatsoever and to protect it against any liability it may incur under the Indenture.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The permissive right of the Trustee to do things enumerated in the Indenture is not construed as a duty.

(l) 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.

(m) The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(n) In no event shall the Trustee be responsible or liable for special, indirect, punitive, incidental or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Right to Rely on Documents

The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, 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, including, without limitation, Bond Counsel or other counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Indenture in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto is established to the satisfaction of the Trustee.

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 specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of the District, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may (but has no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant appointed by the District.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Indenture and delivered using Electronic Means ("Electronic Means" means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Indenture); provided, however, that the District shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the District, whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The District understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The District shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the District and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the District. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The District agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions 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; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the District; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys, including Bond proceeds, which shall be released or withdrawn in accordance with the provisions of the Indenture.

Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during normal business hours, and upon reasonable prior written notice, to the inspection of the District and any Owner, and their agents and representatives duly authorized in writing.

Compensation and Indemnification

The District shall pay to the Trustee from time to time compensation for all services rendered under the Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee has a first lien on the Net Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture. Any such expenses incurred by the Trustee shall be deemed to constitute a substantial contribution to the trust estate which secures the Bonds. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

The District further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense, including legal fees and expenses, and liabilities, whether or not litigated, suits, actions, and judgments, which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability and of enforcing any remedies under the Indenture and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the District under this the Indenture shall survive resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture.

Accounting Records and Financial Statements

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee under the Indenture. Such books of record and account shall be available for inspection by the District at reasonable hours, during the Trustee's regular business hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the District, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee under the Indenture.

MODIFICATION AND AMENDMENT OF THE INDENTURE

Amendments Permitted

(a) Amendment With Bond Owner Consent and Insurer. The Indenture and the rights and obligations of the District, the Owners of the Bonds and the Insurer may be modified or amended by the District and the Trustee upon Request of the District at any time by the execution of a Supplemental Indenture, but only with the written consent of the Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding with respect to all Bonds then Outstanding, exclusive of

Bonds disqualified as provided in the Indenture. Any such Supplemental Indenture becomes effective upon the execution and delivery thereof by the parties thereto and upon consent of the requisite Bond Owners and Insurer. No such modification or amendment may:

- (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal thereof, or interest thereon, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond and the Insurer, or

- (ii) permit the creation by the District of any mortgage, pledge or lien upon the Gross Revenues or Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), or

- (iii) reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

- (iv) modify any of the rights or obligations of the Trustee without its written consent.

(b) Amendment Without Bond Owner Consent. The Indenture and the rights and obligations of the District and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the District in the Indenture;

- (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners or the Insurer in the opinion of Bond Counsel filed with the District and the Trustee;

- (iii) to provide for the issuance of Parity Debt under the Indenture, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of the Indenture; and

- (iv) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

(c) Notice of Amendments. The District shall deliver or cause to be delivered a draft of any Supplemental Indenture to Moody's and/or S&P, if and only if such rating District is then providing a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under the Indenture. The District shall also deliver or cause to be delivered a draft of any Supplemental Indenture to the Insurer, at least 10 days prior to the effective date of such Supplemental Indenture.

(d) Amendment Considerations. 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 Bonds or the rights of the Owners, the effect of any such amendment, consent, waiver, action or inaction shall be considered as if there were no Insurance Policy.

Effect of Supplemental Indenture

From and after the time any Supplemental Indenture becomes effective under the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties to the Indenture and all Owners, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement or Replacement of Bonds After Amendment

After the effective date of any amendment or modification of the Indenture under the Indenture, the District may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the District, as to such amendment or modification and in that case upon demand of the District the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the District may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the District the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

Amendment by Mutual Consent

The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner.

Trustee's Reliance

The Trustee may conclusively rely, and is protected in relying, upon a Certificate of the District and an opinion of counsel stating that all requirements of the Indenture relating to the amendment or modification of the Indenture have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default and Acceleration of Maturities

Each of the following events constitutes an Event of Default under the Indenture:

(a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for acceleration, or otherwise.

(b) Failure to pay any installment of interest on the Bonds when due.

(c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee; provided, however, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within

such 30-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure within 60 days after the written notice of default thereof.

(d) The District commences a voluntary bankruptcy case under Title 11 of the United States Code or any substitute or successor statute.

With the consent of the Insurer, if an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall (i) for any default listed in the Indenture only, declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, provided that the Insurer may elect, in its sole discretion, to pay the accelerated principal, and interest accrued on such principal, to the date of acceleration (to the extent unpaid by the District) and the Trustee shall be required to accept such amounts and (ii) subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under the Indenture, including the right, by action brought pursuant to the California Code of Civil Procedure, or as otherwise provided by law, to obtain the issuance of a writ of mandamus enforcing the duty of the District to take all steps necessary for the payment of principal of and interest on the Bonds, and other amounts due under the Indenture. The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become [Due for Payment] but shall be unpaid by reason of Nonpayment, as such terms are defined in the Insurance Policy, by the District and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof, whether or not the Insurer has received a Notice of Nonpayment, as such term is defined in the Insurance Policy, or a claim upon the Insurance Policy. Upon Insurer's payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Insured Bonds shall be fully discharged.

Within five (5) Business days upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the District and the Insurer by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) 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 Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the District and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such

rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Event of Default or Acceleration

All amounts received by the Trustee under any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) First, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee under the Indenture, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

(b) Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Power of Trustee to Control Proceedings

If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action and the Trustee has been indemnified to its satisfaction. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Limitation on Owners' Right to Sue

No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless:

(a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers granted ior to institute such action, suit or proceeding in its own name;

(c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners has any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and the interest and premium, if any, on such Bond as provided in the Indenture, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture.

Non-Waiver

Nothing in the Indenture or in the Bonds, affects or impairs the obligation of the District, which is absolute and unconditional, to pay from the Net Revenues and other amounts pledged under the Indenture, the principal of and interest on the Bonds to the Bond Owners when due and payable as provided in the Indenture, or affects or impairs the right of action, which is also absolute and unconditional, of the Bond Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Bond Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

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

Actions by Trustee as Attorney-in-Fact

Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed by the Indenture (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of the Indenture. Notwithstanding the provisions of the Indenture, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for any additional fees,

charges and expenses of the Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Owners in the Indenture is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Bond Law or any other law.

MISCELLANEOUS

Limited Liability of the District

Notwithstanding anything in the Indenture contained, the District is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or for the performance of any covenants contained in the Indenture. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the District for such purpose without incurring indebtedness.

The Bonds are revenue bonds, payable exclusively from the Net Revenues and other funds as in the Indenture provided. Except as provided in the Indenture, the Water Fund of the District is not liable, and the credit of the District is not pledged, for the payment of the interest on or principal of the Bonds. The Owners of the Bonds have no right to compel the forfeiture of any property of the District. The principal of and interest on the Bonds are not a debt of the District, or a legal or equitable pledge, charge, lien or encumbrance upon any property of the District or upon any of its income, receipts or revenues except the Net Revenues and other funds pledged to the payment thereof as provided in the Indenture.

Benefits of Indenture Limited to Parties

Nothing in the Indenture, expressed or implied, gives to any person other than the District, the Insurer and the Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture. Any covenants, stipulations, promises or agreements in the Indenture contained by and on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners of the Bonds.

Defeasance of Bonds.

(i) If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(b) subject to the conditions set forth in the Indenture, by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal and interest;

(c) subject to the conditions set forth in the Indenture, by irrevocably depositing with the Trustee or an escrow bank, Federal Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before maturity; or

(d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the District under the Indenture with respect to such Bonds shall cease and terminate, except only: the obligations of the District under the Indenture (Tax Covenants), the obligation of the Trustee to transfer and exchange Bonds under the Indenture, the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and the obligations of the District to compensate and indemnify the Trustee under the Indenture.

The District must file notice of such election with the Trustee. The Trustee shall pay any funds thereafter held by it, which are not required for said purpose, to the District or to its order.

(ii) To accomplish defeasance pursuant to paragraphs (i)(b) or (i)(c) above, the District shall cause to be delivered to the Insurer and Trustee (a) a report of an Independent Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date ("Verification"), as shall be acceptable to the Insurer, (b) an escrow agreement or irrevocable refunding instructions, which shall be acceptable in form and substance by the Insurer, (c) an opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion to be acceptable in form and substance, and addressed, to the District, the Insurer and Trustee, and (d) a certificate of discharge of the Trustee with respect to the Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Trustee and the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

(iii) In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with the Indenture, the Trustee shall pay all amounts held by it in any funds or accounts under the Indenture, which are not required for said purpose or for payment of amounts due the Trustee under the Indenture, to the District. Only (a) cash, (b) non-callable direct obligations of the United States of America ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries 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 Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (d) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated in the then highest rating category by S&P and Moody's for such obligations, or (e) subject to the prior written consent of the Insurer, any other type of security or obligation which S&P and Moody's have determined to be permitted defeasance securities, shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves.

(iv) Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met. Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Indenture and the Insured Bonds relating to such payments shall

remain Outstanding and continue to be due and owing until paid by the District in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

Execution of Documents and Proof of Ownership by Owners

Any request, consent, declaration or other instrument which the Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing. Except as otherwise expressly provided in the Indenture, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing 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 Bonds and the amount, maturity, number and date of ownership thereof are conclusively proved by the Registration Books. Any request, declaration or other instrument or writing of the Owner of any Bond binds all future Owners of such Bond in respect of anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the District (but excluding Bonds held in any employees' retirement fund) must be disregarded and deemed not to be Outstanding for the purpose of any such determination, unless all Bonds are so owned or held, in which case all such Bonds shall be considered Outstanding. The Trustee will not be deemed to have knowledge that any Bond is owned or held by the District unless the District is the Registered Owner or the Trustee has received written notice to that effect.

Waiver of Personal Liability

No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Destruction of Canceled Bonds

Whenever in the Indenture provision is made for the surrender to the District of any Bonds which have been paid or canceled under the provisions of the Indenture, a certificate of destruction duly executed by the Trustee, upon request, shall be deemed to be the equivalent of the surrender of such canceled Bonds and the District shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to. The District shall pay all costs of any microfilming of Bonds to be destroyed.

Funds and Accounts

Any fund or account required by the Indenture to be established and maintained by the District or the Trustee may be established and maintained in the accounting records of the District or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof

and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the District shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

Unclaimed Moneys

Anything contained to the contrary in the Indenture notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for one year after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for one year after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee (without liability for interest) to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of and interest on such Bonds.

Governing Law

The Indenture shall be governed by and construed in accordance with the laws of the State of California.

Provisions Relating to the Insurance Policy

(a) The Insurer shall be deemed to be the sole Owner of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Insured Bonds are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Indenture and each Insured Bond, each Owner of the Insured Bonds appoints the Insurer as its agent and attorney-in-fact with respect to the Insured Bonds and agrees that the Insurer may at any time during the continuation of any proceeding by or against the District under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”) direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a “Claim”), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, each Owner of the Insured Bonds delegates and assigns to the Insurer, to the fullest extent permitted by law, the rights of each Owner of the Insured Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. The Trustee acknowledges such appointment, delegation and assignment by each Owner of the Insured Bonds for the Insurer’s benefit and agrees to cooperate with the Insurer in taking any action reasonably necessary or appropriate in connection with such appointment, delegation and assignment. Remedies granted to the Owners shall expressly include mandamus.

(b) The Insurer is a third-party beneficiary of the Indenture.

(c) The rights granted to the Insurer under the Indenture, the Bonds and other transaction documents (collectively, the “Related Documents”) 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 shall 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.

(d) The Insurer shall be provided with the following by the District or the Trustee, as applicable:

(i) Notice of the Commencement of any Insolvency Proceeding and 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 Insured Bonds;

(ii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents;

(iii) All reports, notices and correspondence to be delivered to Owners under the terms of the Related Documents;

(iv) The Trustee shall notify the Insurer of any known failure of the District to provide notices, certificates and other information under the Related Documents that are required to be delivered to the Owners of the Bonds; and

(v) To the extent not otherwise filed with the Municipal Securities Rulemaking Board's EMMA system, all information required to be furnished pursuant to a continuing disclosure agreement, covenant or undertaking with respect to the Bonds.

(e) The Insurer shall have the right to receive such additional information as it may reasonably request.

(f) 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 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.

(g) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee shall designate any portion of payment of principal on Insured Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Owner of the Insured Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Bond shall have no effect on the amount of principal or interest payable by the District on any Insured Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Insured Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners of the Insured Bonds referred to as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners of the Insured Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of the Insured Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections of the Indenture regarding payment of Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything in the Indenture to the contrary, the District agrees to pay to the Insurer, solely from the Net Revenues of the Water System (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the "Insurer Advances"); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the "Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The District covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Insured Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. The Trustee shall notify the Insurer of any funds remaining in the Policy Payments Account after the Trustee has made the payments for which a claim was made to the Owners of the Insured Bonds and shall, at the written direction of the Insurer, promptly remit such funds remaining to the Insurer.

(h) The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the District to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.

(i) The District shall pay or reimburse the Insurer, solely from the Net Revenues of the Water System, 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 any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation, proceeding (including any Insolvency Proceeding) or other dispute in connection with the Indenture or any other Related Document 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 other Related Document. Amounts payable by the District under the Indenture shall bear interest at the Late Payment Rate from the date such amount is paid or incurred by the Insurer until the date the Insurer is paid in full. The obligation to reimburse the Insurer shall survive discharge or termination of the Related Documents.

(j) Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Insured Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of this Indenture which permits the purchase of Insured Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Insured Bond so purchased is not cancelled upon purchase.

(k) (Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Project Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Bonds.

(l) Each of the Issuer and Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Net Revenues of the Water System under applicable law.

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this Appendix D concerning DTC and its book-entry system has been obtained from sources that the District believe to be reliable, but the District take no responsibility for the accuracy thereof.

General

The Depository Trust Company (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 S&P Global Ratings 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.org. The information on such website is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

APPENDIX E

FORM OF BOND COUNSEL OPINION

March 14, 2024

Board of Directors
Fallbrook Public Utility District
990 E Mission Road
Fallbrook, California 92028

OPINION: \$11,205,000 Fallbrook Public Utility District 2024 Water Revenue Bonds

Members of the Board of Directors:

We have acted as bond counsel to the Fallbrook Public Utility District (the “District”) in connection with the issuance by the District of its \$11,205,000 Fallbrook Public Utility District 2024 Water Revenue Bonds (“Bonds”), under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code (the “Bond Law”) and under an Indenture of Trust dated as of March 1, 2024 (the “Indenture”), between the District and U.S. Bank Trust Company, National Association, as trustee, approved by a resolution of the Board of Directors of the District adopted on January 22, 2024.

In such connection, we have examined the Bond Law, the Agreement, and the Tax Certificate (“Tax Certificate”), dated the date hereof and related to the Bonds, and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinions, we have relied upon the representations of the District contained in the Indenture, and in certificates of its authorized officers which have been delivered to us for the purpose of supplying such facts, without having undertaken to verify the accuracy of any such representations by independent investigation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other events come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events, or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions below. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities and their subordinate entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness, or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based upon our examination we are of the opinion, under existing law, that:

1. The District is a public utility district duly organized and existing under the Constitution and laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein, and to issue the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the District, and are legal, valid and binding obligations of the District, payable solely from the sources provided therefor in the Indenture.
3. The Indenture has been duly approved by the District, and constitutes a legal, valid and binding obligation of the District, enforceable against the District in accordance with its terms.
4. Under the Bond Law, the Indenture establishes a valid lien on and pledge of the Net Revenues of the Water System (as such terms are defined in the Indenture) for the security of the Bonds and any obligations issued on a parity therewith.
5. Under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, for tax years beginning after December 31, 2022, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.
6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$11,205,000

**FALLBROOK PUBLIC UTILITY DISTRICT
2024 Water Revenue Bonds**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Fallbrook Public Utility District (the “District”) in connection with the issuance of the above-referenced bonds (the “Bonds”). The Bonds are being issued under the provisions of Articles 6 of Chapter 4 of Division 7 of the Public Utilities Code, commencing with Section 16575 of said Code and an Indenture of Trust, dated as of March 1, 2024 (the “Indenture”), between the District and U.S. Bank Trust Company, National Association, as trustee.

The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 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.

“Dissemination Agent” shall mean U.S. Bank Trust Company, National Association, or any successor Dissemination Agent designated by the District.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means the fiscal year of the District.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated February 27, 2024.

“Participating Underwriter” shall mean the original purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) 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.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than each March 1 after the end of each Fiscal Year (presently such Fiscal Year ends June 30) or the next succeeding business day if that day is not business day, commencing with the report for the Fiscal Year ending June 30, 2024, which shall be due March 1, 2025, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document within the District’s Annual Comprehensive Financial Report or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send, in a timely manner, a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include 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 financial 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 become available.

(b) An update as of the most recently ended Fiscal Year of the District to the information set forth in the following tables in the Official Statement for the most recently-completed Fiscal Year only, to the extent not included in the comprehensive annual financial report: Table 1, Table 2, Table 3, Table 5, Table 6, Table 7, Table 11, Table 13, and Table 15, and a condensed statement of net position of the District’s water activity segment.

(c) 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 each of the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 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 Indenture or its obligations in relation to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the District;
- (13) 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, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) If a Listed Event occurs, the District shall provide, in a timely manner and in no event in excess of ten (10) Business Days after the occurrence of such Listed Event, notice of such Listed Event with the MSRB.

SECTION 6. Termination of Reporting 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(b).

SECTION 7. Dissemination Agent. The District will serve as the initial Dissemination Agent hereunder. The District may, from time to time, appoint or engage a different Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 8. 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 Annual Report or 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 Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Bondholder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner 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.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, suit, claim, cost, damages, judgment, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall be afforded the same rights, protections and immunities hereunder afforded to it as Trustee under the Indenture.

It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Disclosure Certificate, and has no liability to any person, including any holder of Bonds, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the District.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule, taking into account any subsequent change in or interpretation of the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the same manner as for a Listed Event under Section 5(b). The District shall obtain the consent of the Dissemination Agent for any amendment of the Disclosure Certificate that affects the duties, rights, protections or obligations of the Dissemination Agent.

SECTION 12. Transmission of Notices, Documents and Information.

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, 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.

SECTION 14. Governing Law. The provisions of this Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of California.

Dated: _____, 2024

FALLBROOK PUBLIC UTILITY DISTRICT

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: Fallbrook Public Utility District
Name of Bond Issue: \$11,205,000 Fallbrook Public Utility District 2024 Water Revenue Bonds
Date of Issuance: March 14, 2024

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the District by the date required in the Continuing Disclosure Certificate. The District anticipates that the Annual Report will be filed by _____.

Dated: _____, 20__

FALLBROOK PUBLIC UTILITY DISTRICT

By: _____

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

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

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

