

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS.”*

**\$7,575,000**

**CAMROSA WATER DISTRICT FINANCING AUTHORITY  
WATER AND WASTEWATER REFUNDING REVENUE BONDS  
SERIES 2012**

**Dated: Date of Delivery****Due: January 15, as shown on the inside cover**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Camrosa Water District Financing Authority Water and Wastewater Refunding Revenue Bonds, Series 2012 (the “Bonds”), are being issued in the aggregate principal amount of \$7,575,000 by the Camrosa Water District Financing Authority (the “Authority”) pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended (the “Act”), Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Refunding Law”), and the provisions of a Trust Agreement, dated as of February 1, 2012 (the “Trust Agreement”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The proceeds from the sale of the Bonds will be used to refund all of the outstanding Water and Wastewater Systems Refunding Revenue Bonds, Series 2001, previously issued by the Camrosa Water District (the “District”) in the aggregate principal amount of \$11,700,000, of which \$8,085,000 are currently outstanding. Proceeds from the sale of the Bonds will also be used to fund a reserve account established for the Bonds under the Trust Agreement and to pay costs incurred in connection with the issuance, sale, and delivery of the Bonds. See “THE REFUNDING PLAN,” “THE BONDS – Estimated Sources and Uses of Bond Proceeds,” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Reserve Account.” Capitalized terms used on this cover page and not otherwise defined shall have the meanings ascribed to them elsewhere in this Official Statement. See in particular “APPENDIX A – Summary of the Principal Legal Documents – Definitions.”

The Bonds will be delivered as fully registered bonds without coupons and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. See “THE BONDS – Book-Entry Only System.”

Payments of interest on the Bonds will be made by the Trustee to DTC, which will in turn remit such interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. Interest on the Bonds is payable semiannually on each January 15 and July 15, commencing July 15, 2012, until the maturity thereof. Principal with respect to each Bond will be paid upon surrender of such Bond at the principal corporate office of the Trustee upon maturity thereof.

**The Bonds are not subject to redemption prior to the stated maturities thereof.**

The Bonds are payable from and secured by a first pledge of certain payments received by the Authority from the District under a 2012 Water Installment Sale Agreement, dated as of February 1, 2012 (the “Water Installment Sale Agreement”), and a 2012 Wastewater Installment Sale Agreement, dated as of February 1, 2012 (the “Wastewater Installment Sale Agreement”), each by and between the Authority and the District, and from interest and other income derived from certain funds and accounts held under the Trust Agreement (collectively, the “Revenues,” as more fully described herein). The District’s obligation to make payments under the Water Installment Sale Agreement is payable solely from all gross income and revenue received by the District from the ownership or operation of the Water System, and the District’s obligation to make payments under the Wastewater Installment Sale Agreement is payable solely from all gross income and revenue received by the District from the ownership or operation of the Wastewater System, excluding in each case maintenance and operation costs of the Water System and Wastewater System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues; Pledge of Revenues.”

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES. NEITHER THE FAITH AND CREDIT OF THE AUTHORITY, THE DISTRICT, THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION OF THE STATE, NOR THE TAXING POWER OF THE DISTRICT, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE BONDS NOR THE OBLIGATION OF THE DISTRICT TO MAKE PAYMENTS UNDER THE WATER INSTALLMENT SALE AGREEMENT OR THE WASTEWATER INSTALLMENT SALE AGREEMENT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE AUTHORITY, THE DISTRICT, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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**[Maturity Schedule set forth on inside cover]**

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*The Bonds are offered when, as, and if delivered to and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the Authority or the District by Orrick, Herrington & Sutcliffe LLP, by Hathaway, Perrett, Webster, Powers, Chrisman & Gutierrez, Ventura, California, General Counsel to the District, and by Goodwin Procter LLP, Los Angeles, California, Disclosure Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about February 28, 2012.*



## MATURITY SCHEDULE

<u>Maturity Date</u> <u>(January 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> No.</u>	<u>Maturity Date</u> <u>(January 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup> No.</u>
2013	\$890,000	2.000%	0.630%	13466L AT0	2017	\$ 945,000	4.000%	1.460%	13466L AX1
2014	860,000	2.000	0.840	13466L AU7	2018	985,000	4.000	1.740	13466L AY9
2015	890,000	2.000	1.100	13466L AV5	2019	1,030,000	4.000	1.990	13466L AZ6
2016	905,000	4.000	1.300	13466L AW3	2020	1,070,000	5.000	2.240	13466L BA0

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**CAMROSA WATER DISTRICT**

7385 Santa Rosa Road  
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**BOARD OF DIRECTORS**

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Eugene F. West (Division 4), *Vice-President*  
Jeffrey C. Brown (Division 2), *Director*  
Timothy H. Hoag (Division 3), *Director*  
Terry L. Foreman (Division 5), *Director*

**DISTRICT STAFF**

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***Trustee***

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Los Angeles, California

***2001 Trustee, Escrow Agent***

U.S. Bank National Association  
Los Angeles, California

***Financial Advisor***

Urban Futures Inc.  
Orange, California

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

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

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

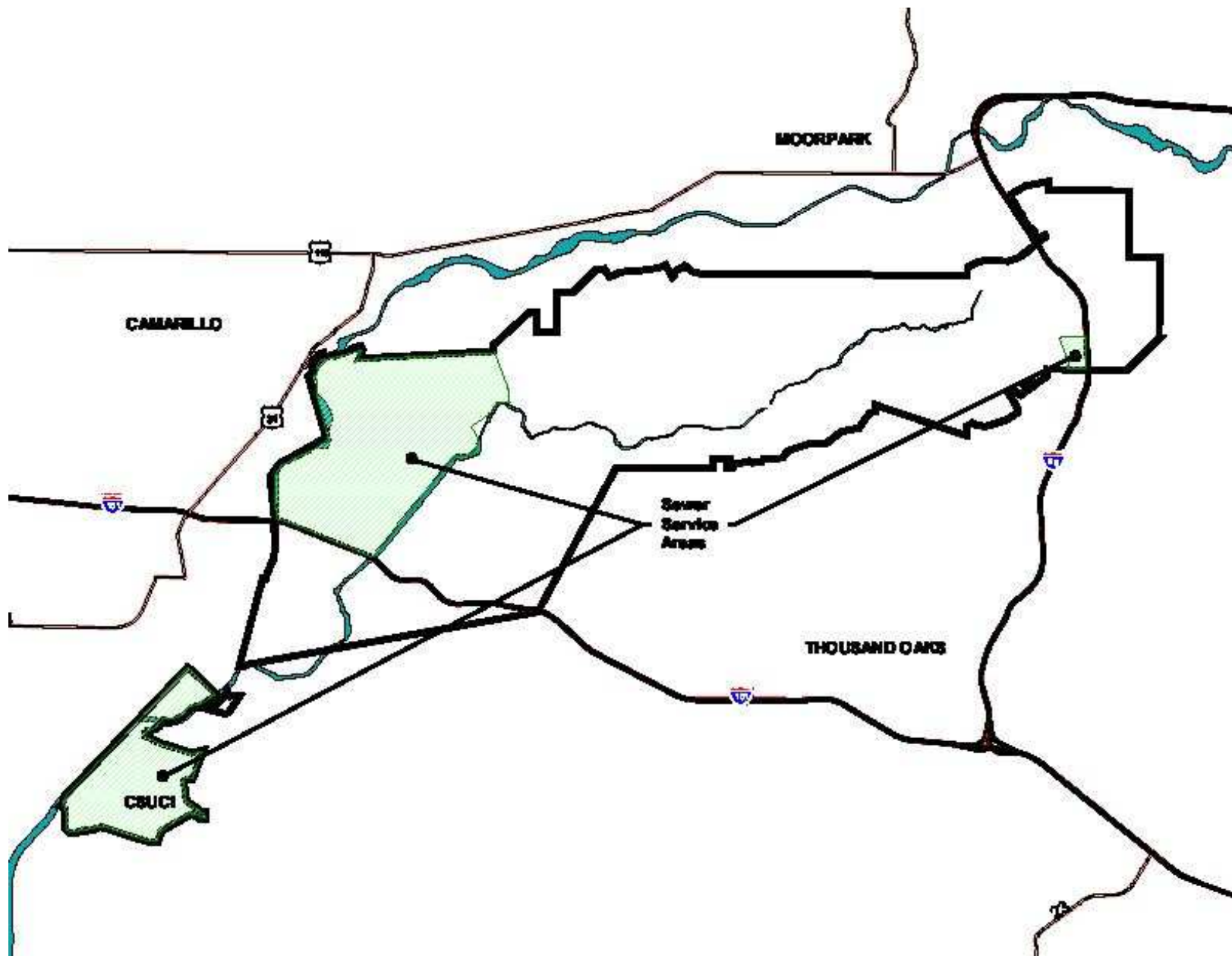
The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances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

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.

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

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

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



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**\$7,575,000**  
**CAMROSA WATER DISTRICT FINANCING AUTHORITY**  
**WATER AND WASTEWATER REFUNDING REVENUE BONDS**  
**SERIES 2012**

**INTRODUCTION**

**General**

This Official Statement, which includes the cover page, inside cover page, Table of Contents, and Appendices (the “Official Statement”), provides certain information concerning the issuance, sale, and delivery of the Camrosa Water District Financing Authority Water and Wastewater Refunding Revenue Bonds, Series 2012, in the aggregate principal amount of \$7,575,000 (the “Bonds”). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and reference is made to each such document for complete details of all terms and conditions therein. All statements in this Official Statement are qualified in their entirety by reference to the applicable documents.

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in “APPENDIX A – Summary of the Principal Legal Documents – Definitions.”

**The District**

The Camrosa Water District (the “District”) is a water district duly organized and existing under the County Water District Law (codified at Division 12 of the California Water Code) (the “Law”). The District has the powers under the Law to, among other things, provide potable and non-potable water service and wastewater service within its geographic boundaries. See “THE DISTRICT.”

**Authority; Authorization**

The Bonds are being issued by the Camrosa Water District Financing Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the “Authority”), pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended (the “Act”), Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Refunding Law”), and the provisions of a Trust Agreement, dated as of February 1, 2012 (the “Trust Agreement”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). See “THE BONDS – Authorization and Payment of Bonds” and “APPENDIX A – Summary of the Principal Legal Documents – The Trust Agreement.”

**Purpose of Issuance**

The proceeds from the sale of the Bonds will be used to refund all of the outstanding Camrosa Water District Water and Wastewater Systems Refunding Revenue Bonds, Series 2001 (the “Series 2001 Bonds”), previously issued by the District in the aggregate principal amount of \$11,700,000, of which \$8,085,000 are currently outstanding. Proceeds from the sale of the Bonds will also be used to fund the reserve account (the “Reserve Account”) established for the Bonds under the Trust Agreement, and to pay costs incurred in connection with the issuance, sale, and delivery of the Bonds. Proceeds from the sale of

the Series 2001 Bonds were used to refund a portion of the District's then outstanding Revenue Certificates of Participation (Water and Wastewater Systems Improvement Projects), Series 1995 (the "1995 Certificates"), which 1995 Certificates were originally executed and delivered to finance certain capital improvements to the District's water system (the "Water System") and wastewater system (the "Wastewater System"). See "THE REFUNDING PLAN," "THE BONDS – Estimated Sources and Uses of Bond Proceeds," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Reserve Account," "THE WATER SYSTEM," and "THE WASTEWATER SYSTEM."

### **Registration, Date, and Maturity of Bonds**

The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, which will act as securities depository for the Bonds. The Bonds will be dated the date of their initial delivery and will mature on the dates and in the principal amounts set forth on the inside cover page hereof.

### **Security for and Payment of the Bonds**

The Bonds are payable from and secured by a first pledge of certain payments (collectively, the "2012 Installment Sale Payments") received by the Authority from the District under a 2012 Water Installment Sale Agreement, dated as of February 1, 2012 (the "Water Installment Sale Agreement"), and a 2012 Wastewater Installment Sale Agreement, dated as of February 1, 2012 (the "Wastewater Installment Sale Agreement" and, collectively, the "Installment Sale Agreements"), each by and between the Authority and the District, and from interest and other income derived from certain funds and accounts held under the Trust Agreement (collectively, the "Revenues," as more fully described herein). The District's obligation to make payments under the Water Installment Sale Agreement is payable solely from all gross income and revenue received by the District from the ownership or operation of the Water System, and the District's obligation to make payments under the Wastewater Installment Sale Agreement is payable solely from all gross income and revenue received by the District from the ownership or operation of the Wastewater System, excluding maintenance and operation costs of the Water System and Wastewater System, respectively. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues; Pledge of Revenues."

Interest on the Bonds is payable on January 15 and July 15, commencing July 15, 2012 (each, an "Interest Payment Date"). Each Bond shall bear interest from the Interest Payment Date, unless the date of authentication of such Bond is prior to the Record Date (as hereinafter defined) for the first Interest Payment Date, in which event such Bond shall bear interest from the date of initial delivery thereof; provided, however, that if at the time of registration of any Bond interest is then in default on the Outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds. The holder of \$1,000,000 or more in aggregate principal amount of Bonds may request in writing, such request filed not later than the applicable Record Date, that the Trustee pay the interest thereon by wire transfer to an account in the United States.

Principal of any Bond shall be paid by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee. Principal of and interest and premium, if any, on the Bonds shall be payable in lawful money of the United States of America. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be paid to DTC as registered owner of the Bonds. See "THE BONDS – Book-Entry Only System."

## **No Redemption of Bonds**

The Bonds are not subject to redemption prior to their stated maturities.

## **Reserve Account**

Under the Trust Agreement, a Reserve Account shall be created for the Bonds, and shall be held in trust by the Trustee. On the delivery date of the Bonds, the Trustee shall deposit into the Reserve Account an amount equal to the Reserve Account Requirement (as defined herein). Moneys in the Reserve Account shall be used solely for the purpose of replenishing the Interest Account or the Principal Account under the Trust Agreement, in that order, in the event of any deficiency at any time in either such Account. In the event that the amount on deposit in either such Account on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on the Bonds coming due and payable, the Trustee shall withdraw the amount of such insufficiency from the Reserve Account and transfer such amount to the Interest Account and the Principal Account. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Reserve Account.”

## **Parity Obligations and Additional Parity Obligations**

The 2012 Installment Sale Payments shall be payable from the Net Water Revenues and Net Wastewater Revenues, as applicable, on an equal basis with the Authority’s Water and Wastewater Revenue Bonds, Series 2011A, which are currently outstanding in the aggregate principal amount of \$9,630,000 (the “Series 2011A Bonds”), and any Water Parity Bonds, Water Contracts, Wastewater Parity Bonds, or Wastewater Contracts (as such terms are defined herein) issued or executed, as applicable, in the future in accordance with the terms of the Installment Sale Agreements. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Parity Obligations – Water System” and “– Additional Parity Obligations – Wastewater System.”

## **Rate Covenant**

The District will covenant under the Installment Sale Agreements to fix, prescribe, and collect rates, fees, and charges for the Water Service and the Wastewater Service that are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Net Water Revenues and Net Wastewater Revenues during each fiscal year of the District (each, a “Fiscal Year”) equal to 115% of the Debt Service (as defined in each Installment Sale Agreement) for such Fiscal Year. See “APPENDIX A – Summary of the Principal Legal Documents – Definitions.” “Debt Service” includes the scheduled interest and principal payments, payable from Net Water Revenues or Net Wastewater Revenues, as applicable, with respect to the 2012 Installment Sale Payments, the Series 2011A Bonds, Water Parity Bonds, Water Contracts, Wastewater Parity Bonds, and Wastewater Contracts. The District may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but covenants not to reduce the rates, fees, and charges then in effect unless the respective Net Water Revenues or Net Wastewater Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements described in this paragraph. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant; Collection of Rates and Charges.”

## **Continuing Disclosure**

In connection with the issuance of the Bonds, the District will covenant in the Continuing Disclosure Agreement, dated as of the date of delivery of the Bonds (the “Continuing Disclosure Agreement”), by and between the District and the Trustee, as dissemination agent, to provide certain

financial information and operating data relating to the District and notices of certain events listed therein. See “CONTINUING DISCLOSURE” and “APPENDIX D – Form of Continuing Disclosure Agreement.”

### **Limited Obligations**

Neither the faith and credit of the Authority, the District, the State of California (the “State”), or any political subdivision of the State nor the taxing power of the District, the State, or any political subdivision of the State is pledged to the payment of the Bonds. The Authority has no taxing power. The Bonds are limited obligations of the Authority payable on a parity basis solely from and secured solely by the 2012 Installment Sale Payments and the Bonds are further separately secured by amounts in certain funds and accounts pledged therefor under the Trust Agreement. The Bonds are neither general or special obligations of the District nor general obligations of the Authority, but are limited obligations of the Authority payable exclusively from the 2012 Installment Sale Payments and amounts in certain funds and accounts pledged therefor under the Trust Agreement, as more fully described herein. The obligation of the District to make 2012 Installment Sale Payments under the Installment Sale Agreements does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The Authority is not required to advance any moneys derived from any source other than the 2012 Installment Sale Payments and amounts in certain funds and accounts pledged therefor under the Trust Agreement for the payment of the principal of or interest on the Bonds. Neither the Bonds nor the obligation of the District to make 2012 Installment Sale Payments constitute a debt or indebtedness of the Authority, the District, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction. For certain financial information with respect to the District, the Water System, and the Wastewater System, see “THE DISTRICT,” “THE WATER SYSTEM,” and “THE WASTEWATER SYSTEM.”

### **Forward-Looking Statements**

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,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “THE WATER SYSTEM” and “THE WASTEWATER SYSTEM.” The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the 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. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. **READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.**

## References Qualified

The summaries of and references to all 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 each such document, statute, report, or instrument.

## THE REFUNDING PLAN

All of the proceeds of the Bonds, together with certain other available moneys held under the 2001 Indenture (as defined below), will be used to redeem all outstanding Series 2001 Bonds, as more particularly described in the following table:

<b>Maturity Date (January 15)</b>	<b>Principal Amount</b>	<b>Redemption Price</b>	<b>Redemption Date</b>	<b>CUSIP <sup>(1)</sup></b>
2013	\$ 855,000	101.00%	March 12, 2012	13466N AM1
2014	890,000	101.00	March 12, 2012	13466N AN9
2015	940,000	101.00	March 12, 2012	13466N AP4
2016	980,000	101.00	March 12, 2012	13466N AQ2
2017	1,030,000	101.00	March 12, 2012	13466N AR0
2018	1,075,000	101.00	March 12, 2012	13466N AS8
2019	1,130,000	101.00	March 12, 2012	13466N AT6
2020	1,185,000	101.00	March 12, 2012	13466N AU3

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The Series 2001 Bonds were issued pursuant to, and will be refunded in accordance with, the terms of an Indenture, dated as of December 1, 2001 (the “2001 Indenture”), by and between the District and U.S. Bank National Association, as successor to State Street Bank and Trust Company of California, N.A., Los Angeles, California, as trustee (the “2001 Trustee”). On the date of issuance of the Bonds, a portion of the proceeds from the sale of the Bonds (the “2001 Refunding Proceeds”), together with certain other available moneys then on deposit in the funds and accounts established under the 2001 Indenture and held by the 2001 Trustee (together with the 2001 Refunding Proceeds, the “Escrow Proceeds”), will be delivered to the 2001 Trustee, acting as escrow agent (the “Escrow Agent”) under that certain Escrow Agreement, dated as of February 1, 2012 (the “Escrow Agreement”), by and between the District and the Escrow Agent. The Escrow Agent will hold the Escrow Proceeds in an irrevocable escrow fund (the “Escrow Fund”) for the benefit of the owners of the Series 2001 Bonds, to be applied solely as provided in the Escrow Agreement. The Escrow Proceeds will be held uninvested as cash in accordance with the terms of the Escrow Agreement and will be used to redeem all outstanding Series 2001 Bonds on March 12, 2012, at the redemption price of 101% of the principal amount of the Series 2001 Bonds, together with interest accrued thereon to the redemption date. The mathematical sufficiency of the uninvested cash in the Escrow Fund to effectuate the refunding described in this paragraph will be verified by The Arbitrage Group, Inc., as verification agent (the “Verification Agent”). See “VERIFICATION.”

## **THE BONDS**

### **Authorization and Payment of Bonds**

The Bonds are being issued pursuant to the Act, the Refunding Law, and the provisions of the Trust Agreement. The Bonds will be dated the date of their initial delivery and will mature on the dates and in the principal amounts set forth on the inside cover page hereof. Interest on the Bonds will be paid semiannually on each Interest Payment Date to Holders recorded in the registration books kept by the Trustee as of the applicable Record Date. Interest will be computed on the basis of a 360-day year comprised of twelve, 30-day months.

The Bonds will be issued as fully registered bonds in the denomination of \$5,000 each or any integral multiple thereof; provided, however, that no Bond shall have principal represented thereby maturing in more than one year. Principal of each Bond will be payable upon surrender of such Bond at the principal corporate trust office of the Trustee in Los Angeles, California, upon the maturity thereof. Interest will be payable by check, mailed to the Holders of the Bonds as of the applicable Record Date at their addresses as they appear on the registration books maintained by the Trustee; provided, however, that interest payable to an owner of \$1,000,000 or more aggregate principal amount of Bonds will be paid by wire transfer to such account within the United States as such owner shall have specified in writing prior to the applicable Record Date to the Trustee for such purpose. Certain of the provisions described above will not apply as long as the Bonds are in a book-entry only system. See “THE BONDS – Book-Entry Only System.”

### **No Redemption of Bonds**

The Bonds are not subject to redemption prior to their stated maturities.

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

The Bonds will be initially delivered in the form of one fully registered Bond for each of the maturities of the Bonds, registered in the name of Cede & Co., as nominee of DTC, as Holder of all the Bonds. The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the District or the Authority, and neither the District nor the Authority shall have any liability with respect thereto. Neither the District nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the Bonds.

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 the Bonds in the aggregate principal amount of such Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other

securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). *The foregoing internet address is included for reference only and the information on the internet site is not a part of this Official Statement or incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information included in such internet site.*

Purchases of the 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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 to the Authority 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 and interest with respect to 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 Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the District, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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 Authority 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 Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the District nor the Authority takes any responsibility for the accuracy thereof.

### **Estimated Sources and Uses of Bond Proceeds**

The following table details the estimated sources and uses of the proceeds from the sale of the Bonds and the moneys transferred from certain funds and accounts established under the 2001 Indenture.

**TABLE 1**

#### **ESTIMATED SOURCES AND USES OF FUNDS**

**Estimated Sources:**

Principal Amount	\$7,575,000.00
Plus: Net Original Issue Premium	725,323.50
Less: Underwriter's Discount	(60,000.00)
Amounts Released under 2001 Indenture	<u>837,025.14</u>
Total Sources	\$9,077,348.64

**Estimated Uses:**

Transfer to Escrow Fund <sup>(1)</sup>	\$8,223,968.23
Deposit to Reserve Account <sup>(2)</sup>	757,500.00
Deposit to Expense Fund <sup>(3)</sup>	<u>95,880.41</u>
Total Uses	\$9,077,348.64

<sup>(1)</sup> To be used to redeem 2001 Bonds on March 12, 2012

<sup>(2)</sup> Represents the Reserve Account Requirement.

<sup>(3)</sup> Moneys in the Expense Fund are expected to be used to pay the fees and expenses of the Trustee, the Escrow Agent, Bond Counsel, Disclosure Counsel, the Financial Advisor, the Verification Agent, and the rating agency, as well as printing and other miscellaneous costs related to the issuance of the Bonds.

## Debt Service on the Bonds

The table below presents the annual debt service on the Bonds on January 15 in the years shown below:

**TABLE 2**  
**DEBT SERVICE SCHEDULE**

<u>January 15</u>	<u>Principal of Bonds</u>	<u>Interest on Bonds</u>	<u>Total Debt Service on Bonds</u>
2013	\$ 890,000	\$ 229,737	\$1,119,737
2014	860,000	243,100	1,103,100
2015	890,000	225,900	1,115,900
2016	905,000	208,100	1,113,100
2017	945,000	171,900	1,116,900
2018	985,000	134,100	1,119,100
2019	1,030,000	94,700	1,124,700
2020	<u>1,070,000</u>	<u>53,500</u>	<u>1,123,500</u>
Total	\$7,575,000	\$1,361,037	\$8,936,037

Source: Underwriter.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Revenues; Pledge of Revenues

All Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. Such pledge constitutes a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Trust Agreement.

In order to carry out and effectuate the pledge, charge, and lien on Revenues provided in the Trust Agreement, the Authority agrees and covenants in the Trust Agreement that all Revenues when and as received shall be received by the Authority in trust for the benefit of the holders of the Bonds and shall be deposited when and as received by the Authority in the Revenue Fund created under the Trust Agreement and which fund the Authority agrees and covenants to maintain with the Trustee so long as any Bonds are Outstanding. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Authority has no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement.

“Revenues” are defined in the Trust Agreement as all 2012 Installment Sale Payments and other payments paid by the District and received by the Authority pursuant to the Installment Sale Agreements and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) created under the Trust Agreement.

## **Water Installment Sale Payments**

Pursuant to the Water Installment Sale Agreement, the District shall be obligated to make installment payments (the “Water Installment Sale Payments”), but solely from Net Water Revenues (as defined below), which are sufficient to provide for the payment of the principal of and interest on the Bonds. The Water Installment Sale Payments are a separate and distinct obligation of the District, and are not payable in any circumstance from Net Wastewater Revenues (as defined below). The obligation of the District to pay the Water Installment Sale Payments is absolute and unconditional, and until such time as the Water Installment Sale Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the Trust Agreement), the District will not discontinue or suspend any Water Installment Sale Payments required to be paid by it under the Water Installment Sale Agreement when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed, or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

As security for the payment of the principal of and interest on the Bonds, the Authority shall assign to the Trustee the Authority’s rights and remedies under the Water Installment Sale Agreement, including the right to receive the Water Installment Sale Payments.

As stated below, the obligation of the District to pay the Water Installment Sale Payments is limited to the Net Water Revenues, which term is defined in the Water Installment Sale Agreement as, for any Fiscal Year, the Water Revenues during such Fiscal Year less the Maintenance and Operation Costs during such Fiscal Year. Such terms are defined as follows:

“Water Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the ownership and operation of the Water System or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, (2) the proceeds of any development fees, capital facility fees, or connection fees, or any other fees in connection with Water Service, (3) all property taxes received by the District, to the extent that such taxes are allocated to and deposited in the Utility Revenue Fund, (4) all deposits to the Utility Revenue Fund from amounts on deposit in the Water Rate Stabilization Fund, but only to the extent specified in the Water Installment Sale Agreement (see “ – Water Rate Stabilization Fund Deposit” below in this subheading), and (5) the earnings properly allocable to the Water System on and income derived from the investment of amounts described in clauses (1), (2), (3), and (4) above and from District reserves, but excluding (w) all income, rents, rates, fees, charges, and other moneys derived from the sewer, collection, treatment, and disposal services, including property taxes received by the District and allocated to the Wastewater System, (x) all amounts derived from District hydroelectric facilities, (y) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District, and (z) any proceeds of taxes restricted by law to be used by the District to pay bonds or other obligations heretofore or hereafter issued.

“Maintenance and Operation Costs” means costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to

the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) allocable to the Water System required to be paid by it to comply with the terms of the Series 2011A Bonds, the Bonds, the Water Installment Sale Agreement, or any Water Contract or of any resolution or indenture authorizing the issuance of any Water Parity Bonds or of such Water Parity Bonds, but excluding in all cases (1) costs spent or incurred in connection with the wastewater facilities and (2) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

“Water System” means the whole and each and every part of the water system of the District, including all real property and buildings, including the portion thereof existing on the date of the Water Installment Sale Agreement, and including all additions, betterments, extensions and improvements to such water system or any part thereof thereafter acquired or constructed but excluding any facilities that are part of the District’s Wastewater System.

In order to carry out and effectuate the obligation of the District to pay the Water Installment Sale Payments, the District shall agree and covenant in the Water Installment Sale Agreement that all Water Revenues received by it shall be deposited when and as received in trust in the Utility Revenue Fund established by the District and the District shall pledge and grant a security interest in such fund and agree and covenant to maintain such fund so long as any Water Installment Sale Payments, Water Parity Bonds, Certificates, or Water Contracts remain unpaid. The District shall pay Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Utility Revenue Fund as they become due and payable, and money on deposit in the Utility Revenue Fund shall be set aside and deposited by the District at the following times in the following order of priority:

***Water Installment Sale Payment Fund Deposit.*** On or before the last Business Day of each month, beginning in March 2012, the District shall, from the money in the Utility Revenue Fund, deposit in the 2012 Installment Sale Payment Fund, which fund is, under the terms of the Water Installment Sale Agreement, established and which fund the District agrees and covenants to maintain so long as any Water Installment Sale Payments remain unpaid, a sum equal to one-sixth (1/6) of the amount of interest becoming due on the next succeeding January 15 or July 15, as the case may be (except that the deposits for March 2012 through June 2012 shall be equal to one-fourth (1/4) of the amount of interest due on June 15, 2012). On or before the last Business Day of each month, beginning in March 2012, the District shall, from the money in the Utility Revenue Fund, deposit in the 2012 Installment Sale Payment Fund, one-twelfth (1/12) of the amount of principal becoming due on the next succeeding January 15 (except that the deposits for March 2012 through December 2012 shall be equal to one-tenth (1/10) of the amount of interest due on January 15, 2013). Notwithstanding the foregoing, no such deposit need be made if the amount available and contained in the 2012 Installment Sale Payment Fund is equal to the amount of interest becoming due on the next succeeding January 15 or July 15, as the case may be, plus the amount of principal becoming due on the next succeeding January 15. All money on deposit in the 2012 Installment Sale Payment Fund on the first day of the calendar month immediately preceding each 2012 Installment Sale Payment Date shall be paid to and deposited with the Trustee for deposit in the Revenue Fund created under the Trust Agreement.

***Reserve Account Deposits.*** On or before the last Business Day of each month, beginning in July 2012, the District shall, from the remaining money on deposit in the Utility Revenue Fund, deposit with the Treasurer of the Authority for deposit with the Trustee in the Reserve Account the unpaid portion of

that sum, if any, specified to the District by the Trustee pursuant to the Trust Agreement as the amount required under the Water Installment Sale Agreement to replenish the Reserve Account.

**Surplus.** On or before the last Business Day of each month, moneys on deposit in the Utility Revenue Fund not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

**Water Rate Stabilization Fund Deposit.** The District has established and maintains a separate fund known as the “Water Rate Stabilization Fund.” From time to time the District may deposit in the Water Rate Stabilization Fund from remaining Water Revenues such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) 150 days following the end of such Fiscal Year. The District may withdraw amounts from the Water Rate Stabilization Fund only for inclusion in Water Revenues for any Fiscal Year, such withdrawals to be made until (but not after) 150 days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Water Rate Stabilization Fund shall either be retained therein or withdrawn therefrom and accounted for as Water Revenues. Notwithstanding the foregoing, no deposit of Water Revenues to the Water Rate Stabilization Fund may be made to the extent such Water Revenues were included in an Independent Financial Consultant’s report submitted in connection with the issuance of Additional Water Parity Obligations (as defined herein) in accordance with the provisions of the Water Installment Sale Agreement and withdrawal of the Water Revenues to be deposited in the Water Rate Stabilization Fund from Water Revenues employed in rendering said Independent Financial Consultant’s report would cause noncompliance with such provisions of the Water Installment Sale Agreement. See “ – Additional Parity Obligations – Water System” below.

**Water Parity Bonds and Water Contracts.** Notwithstanding the foregoing, deposits made as described above pursuant to the Water Installment Sale Agreement shall not be made in preference or priority over other Water Parity Bonds or Water Contracts.

### **Wastewater Installment Sale Payments**

Pursuant to the Wastewater Installment Sale Agreement, the District shall be obligated to make payments (the “Wastewater Installment Sale Payments”), but solely from Net Wastewater Revenues, which are sufficient to provide for the payment of the principal of and interest on the Bonds. The Wastewater Installment Sale Payments are a separate and distinct obligation of the District, and are not payable in any circumstance from Net Water Revenues. The obligation of the District to pay the Wastewater Installment Sale Payments is absolute and unconditional, and until such time as the Wastewater Installment Sale Payments have been paid in full (or provision for the payment thereof shall have been made pursuant to the Trust Agreement), the District will not discontinue or suspend any Wastewater Installment Sale Payments required to be paid by it under the Wastewater Installment Sale Agreement when due, whether or not the Wastewater System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed, or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

As security for the payment of the principal of and interest on the Bonds, the Authority shall assign to the Trustee the Authority’s rights and remedies under the Installment Sale Agreement, including the right to receive the Wastewater Installment Sale Payments.

As stated below, the obligation of the District to pay the Wastewater Installment Sale Payments is limited to the Net Wastewater Revenues, which is defined in the Wastewater Installment Sale Agreement

as, for any Fiscal Year, the Wastewater Revenues during such Fiscal Year less the Maintenance and Operation Costs during such Fiscal Year. Such terms are defined as follows:

“Wastewater Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the ownership and operation of the Wastewater System or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, (2) the proceeds of any development fees, capital facility fees or connection fees or any other fees in connection with Wastewater Service, (3) all property taxes received by the District, to the extent that such taxes are allocated to and deposited in the Utility Revenue Fund, (4) all deposits to the Utility Revenue Fund from amounts on deposit in the Wastewater Rate Stabilization Fund, but only to the extent specified in the Wastewater Installment Sale Agreement (see “ – Wastewater Rate Stabilization Fund Deposit” below in this subheading), and (5) the earnings properly allocable to the Wastewater System on and income derived from the investment of amounts described in clauses (1), (2), (3), and (4) above and from District reserves, but excluding (w) all income, rents, rates, fees, charges and other moneys derived from the sale, furnishing and supplying of water, including property taxes received by the District and allocated to the Water System, (x) all amounts derived from District hydroelectric facilities, (y) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District and (z) any proceeds of taxes restricted by law to be used by the District to pay bonds or other obligations heretofore or hereafter issued.

“Maintenance and Operation Costs” means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) allocable to the Wastewater System required to be paid by it to comply with the terms of the Series 2011A Bonds, the Bonds, the Wastewater Installment Sale Agreement, or any Wastewater Contract or of any resolution or indenture authorizing the issuance of any Wastewater Parity Bonds or of such Wastewater Parity Bonds, but excluding in all cases (1) costs spent or incurred in connection with the water facilities and (2) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

“Wastewater System” means the whole and each and every part of the wastewater system of the District, including all real property and buildings, including the portion thereof existing on the date of the Wastewater Installment Sale Agreement, and including all additions, betterments, extensions and improvements to such wastewater system or any part thereof thereafter acquired or constructed but excluding any facilities that are part of the District’s Water System.

In order to carry out and effectuate the obligation of the District to pay the Wastewater Installment Sale Payments, the District shall agree and covenant in the Wastewater Installment Sale Agreement that all Wastewater Revenues received by it shall be deposited when and as received in trust in the Utility Revenue Fund established by the District and the District shall pledge and grant a security

interest in such fund and agree and covenant to maintain such fund so long as any Wastewater Installment Sale Payments, Wastewater Parity Bonds, Certificates, or Wastewater Contracts remain unpaid. The District shall pay Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Utility Revenue Fund as they become due and payable, and money on deposit in the Utility Revenue Fund shall be set aside and deposited by the District at the following times in the following order of priority:

***Wastewater Installment Sale Payment Fund Deposit.*** On or before the last Business Day of each month, beginning in March 2012, the District shall, from the money in the Utility Revenue Fund, deposit in the 2012 Installment Sale Payment Fund, which fund is, under the terms of the Wastewater Installment Sale Agreement, established and which fund the District agrees and covenants to maintain so long as any Wastewater Installment Sale Payments remain unpaid, a sum equal to one-sixth (1/6) of the amount of interest becoming due on the next succeeding January 15 or July 15, as the case may be (except that the deposits for March 2012 through June 2012 shall be equal to one-fourth (1/4) of the amount of interest due on June 15, 2012). On or before the last Business Day of each month, beginning in March 2012, the District shall, from the money in the Utility Revenue Fund, deposit in the 2012 Installment Sale Payment Fund, one-twelfth (1/12) of the amount of principal becoming due on the next succeeding January 15 (except that the deposits for March 2012 through December 2012 shall be equal to one-tenth (1/10) of the amount of interest due on January 15, 2013). Notwithstanding the foregoing, no such deposit need be made if the amount available and contained in the 2012 Installment Sale Payment Fund is equal to the amount of interest becoming due on the next succeeding January 15 or July 15, as the case may be, plus the amount of principal becoming due on the next succeeding January 15. All money on deposit in the 2012 Installment Sale Payment Fund on the first day of the calendar month immediately preceding each 2012 Installment Sale Payment Date shall be paid to and deposited with the Trustee for deposit in the Revenue Fund created under the Trust Agreement.

***Reserve Account Deposits.*** On or before the last Business Day of each month, beginning in July 2012, the District shall, from the remaining money on deposit in the Utility Revenue Fund, deposit with the Treasurer of the Authority for deposit with the Trustee in the Reserve Account the unpaid portion of that sum, if any, specified to the District by the Trustee pursuant to the Trust Agreement as the amount required under the Wastewater Installment Sale Agreement to replenish the Reserve Account.

***Surplus.*** On or before the last Business Day of each month, moneys on deposit in the Utility Revenue Fund not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

***Wastewater Rate Stabilization Fund Deposit.*** The District has established and maintains a separate fund known as the "Wastewater Rate Stabilization Fund." From time to time the District may deposit in the Wastewater Rate Stabilization Fund from remaining Wastewater Revenues such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) 150 days following the end of such Fiscal Year. The District may withdraw amounts from the Wastewater Rate Stabilization Fund only for inclusion in Wastewater Revenues for any Fiscal Year, such withdrawals to be made until (but not after) 150 days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Wastewater Rate Stabilization Fund shall either be retained therein or withdrawn therefrom and accounted for as Wastewater Revenues. Notwithstanding the foregoing, no deposit of Wastewater Revenues to the Wastewater Rate Stabilization Fund may be made to the extent such Wastewater Revenues were included in an Independent Financial Consultant's report submitted in connection with the issuance of Additional Wastewater Parity Obligations (as defined herein) in accordance with the provisions of the Wastewater Installment Sale Agreement and withdrawal of the Wastewater Revenues to be deposited in the Wastewater Rate Stabilization Fund from Wastewater

Revenues employed in rendering said Independent Financial Consultant's report would cause noncompliance with such provisions of the Wastewater Installment Sale Agreement. See “ – Additional Parity Obligations – Wastewater System” below.

***Wastewater Parity Bonds and Wastewater Contracts.*** Notwithstanding the foregoing, deposits made as described above pursuant to the Wastewater Installment Sale Agreement shall not be made in preference or priority over other Wastewater Parity Bonds or Wastewater Contracts.

### **Unconditional Obligation**

2012 Installment Sale Payments due under the Installment Sale Agreements are calculated to be in an amount sufficient to provide for the payment of the principal of and the interest on the Bonds. The obligation of the District to pay the 2012 Installment Sale Payments is absolute and unconditional, and until such time as the 2012 Installment Sale Payments have been paid in full (or provisions for the payment thereof shall have been made pursuant to the Trust Agreement), the District may not discontinue or suspend any 2012 Installment Sale Payments required to be paid by it under the respective Installment Sale Agreement when due, whether or not the Water System and the Wastewater System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed, or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

### **Rate Covenant; Collection of Rates and Charges**

The District covenants under the Installment Sale Agreements to fix, prescribe, and collect rates, fees, and charges for the Water Service and the Wastewater Service that are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Net Water Revenues and Net Wastewater Revenues during each Fiscal Year of the District equal to 115% of the Debt Service (as defined in each Installment Sale Agreement) for such Fiscal Year. See “APPENDIX A – Summary of the Principal Legal Documents – Definitions.” “Debt Service” includes the scheduled interest and principal payments, payable from Net Water Revenues or Net Wastewater Revenues, as applicable, with respect to the 2012 Installment Sale Payments, the Series 2011A Bonds, Water Parity Bonds, Wastewater Parity Bonds, Water Contracts, and Wastewater Contracts. The District may make adjustments from time to time in such rates, fees, and charges and may make such classification thereof as it deems necessary, but covenants not to reduce the rates, fees, and charges then in effect unless the respective Net Water Revenues or Net Wastewater Revenues from such reduced rates, fees, and charges will at all times be sufficient to meet the requirements described in this paragraph.

The District further covenants to have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Water System or the Wastewater System (collectively, the “Systems”) to pay the rates, fees, and charges applicable to the Water Service or the Wastewater Service, as applicable, to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the Systems or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California, and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water Service and the Wastewater Service.

## **Other Covenants**

Additional covenants contained in the Installment Sale Agreements include, but are not limited to, the following:

***Against Encumbrances.*** The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies, or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about, or relating to the Systems and will keep the Systems free of any liens against any portion of the Systems. In the event any such lien attaches to or is filed against any portion of the Systems, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien is reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment. Notwithstanding the foregoing, the District may pledge, encumber, or otherwise secure its obligations with the Net Water Revenues or the Net Wastewater Revenues; provided, that in all instances any such pledge, lien, or security is wholly subordinate and junior to the obligations of the District contained in the respective Installment Sale Agreements.

***Against Sale or Other Disposition of Property.*** The District will not sell, lease, or otherwise dispose of the Systems or any part thereof essential to the proper operation of the Systems or to the maintenance of the Net Water Revenues or the Net Wastewater Revenues, and will not enter into any agreement or lease that would impair the operation of the Systems or any part thereof necessary to secure adequate Net Water Revenues or Net Wastewater Revenues for the payment of the 2012 Installment Sale Payments, or that would otherwise impair the rights of the Authority with respect to the Net Water Revenues or the Net Wastewater Revenues or the operation of the Systems; provided, that any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Systems, or any material or equipment that has become worn out, may be sold if such sale will not reduce the Net Water Revenues or the Net Wastewater Revenues below the requirements to be maintained as described under “Rate Covenant; Collection of Rates and Charges” above.

***Maintenance and Operation of the Systems.*** The District will maintain and preserve the Systems in good repair and working order at all times and will operate the Systems in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

***Compliance with Contracts.*** The District will comply with, keep, observe, and perform all agreements, conditions, covenants, and terms, express or implied, required to be performed by it contained in all contracts for the use of the Systems and all other contracts affecting or involving the Systems to the extent that the District is a party thereto.

***Insurance.*** The District will procure and maintain such insurance relating to the Systems that it deems advisable or necessary to protect its interests and the interest of the Authority and the Trustee, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with water and wastewater systems similar to the Systems; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water and wastewater systems similar to the Systems and is, in the opinion of an independent insurance consultant, financially sound.

***Eminent Domain and Insurance Proceeds.*** If all or any part of the Systems is taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to

the Systems, the net proceeds thereof shall be used to substitute other components for the condemned or destroyed components of the Systems.

### **Additional Parity Obligations – Water System**

The District may at any time issue revenue bonds (the “Water Parity Bonds”) the payments under and pursuant to which, or execute any installment sale contracts, capital leases, or similar obligations of the District (inclusive of the Water Installment Sale Agreement, the “Water Contracts”) the payments with respect to which are payable from the Net Water Revenues in the Utility Revenue Fund on a parity with the payment by the District of the Water Installment Sale Payments as provided in the Water Installment Sale Agreement; provided:

(i) The Net Water Revenues for the applicable twelve consecutive month period within the eighteen consecutive months ending immediately prior to the issuance of the Water Parity Bonds or execution of the Water Contract (the “Additional Water Parity Obligations”) to which such calculation or special report relates, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least 115% of the Maximum Annual Debt Service, payable from Net Water Revenues, on all Bonds, Series 2011A Bonds, Water Parity Bonds, and Water Contracts (collectively “Water Parity Obligations”) to be Outstanding immediately after the issuance of the proposed Additional Water Parity Obligations; or

(ii) estimated Net Water Revenues for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of the proposed Additional Water Parity Obligations is at least equal to 1.15 times the Debt Service scheduled to be paid in each Fiscal Year on all Water Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Water Parity Obligations, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District.

For purposes of the computations to be made as described in subparagraph (ii) above, the estimated Net Water Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the Board of Directors of the District, and shall take into account any reduction in such rates and charges which have been approved by the Board of Directors of the District, which will be effective during the Fiscal Year for which such estimate is made; provided that an increase may only be taken into account if such increase takes effect during the Fiscal Years contemplated by subparagraph (ii); and

(2) may take into account an allowance for any estimated increase in such Net Water Revenues from any revenue producing additions or improvements to or extensions of the Water System, to be made with the proceeds of such Additional Water Parity Obligations or with the proceeds of Water Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net Water Revenues to be derived from such additions, improvements and extensions during the Fiscal Years contemplated by subparagraph (ii); and

(3) for the Fiscal Years contemplated by subparagraph (ii), Maintenance and Operation Costs shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such Additional Water Parity Obligations, but adjusted if deemed necessary by the District or an Independent Financial Consultant, as applicable, for any increased Maintenance and Operations Costs

which are, in the judgment of the District or an Independent Financial Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during the Fiscal Years contemplated by subparagraph (ii).

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

### **Additional Parity Obligations – Wastewater System**

The District may at any time issue revenue bonds (the “Wastewater Parity Bonds”) the payments under and pursuant to which, or execute any installment sale contracts, capital leases, or similar obligations of the District (inclusive of the Wastewater Installment Sale Agreement, the “Wastewater Contracts”) the payments with respect to which are payable from the Net Wastewater Revenues in the Utility Revenue Fund on a parity with the payment by the District of the Wastewater Installment Sale Payments as provided in the Wastewater Installment Sale Agreement; provided:

(i) The Net Wastewater Revenues for the applicable twelve consecutive month period within the eighteen consecutive months ending immediately prior to the issuance of the Wastewater Parity Bonds or execution of the Wastewater Contract (the “Additional Wastewater Parity Obligations”) to which such calculation or special report relates, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least 115% of the Maximum Annual Debt Service, payable from Net Wastewater Revenues, on all Bonds, Series 2011A Bonds, Wastewater Parity Bonds, and Wastewater Contracts (collectively “Wastewater Parity Obligations”) to be Outstanding immediately after the issuance of the proposed Additional Wastewater Parity Obligations; or

(ii) estimated Net Wastewater Revenues for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of the proposed Additional Wastewater Parity Obligations is at least equal to 1.15 times the Debt Service scheduled to be paid in each Fiscal Year on all Wastewater Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Wastewater Parity Obligations, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District.

For purposes of the computations to be made as described in subparagraph (ii) above, the estimated Net Wastewater Revenues:

(1) may take into account any increases in rates and charges which relate to the Wastewater System and which have been approved by the Board of Directors of the District, and shall take into account any reduction in such rates and charges which have been approved by the Board of Directors of the District, which will be effective during the Fiscal Year for which such estimate is made; provided that an increase may only be taken into account if such increase takes effect during the Fiscal Years contemplated by subparagraph (ii); and

(2) may take into account an allowance for any estimated increase in such Net Wastewater Revenues from any revenue producing additions or improvements to or extensions of the Wastewater System, to be made with the proceeds of such Additional Wastewater Parity Obligations or with the

proceeds of Wastewater Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net Wastewater Revenues to be derived from such additions, improvements and extensions during the Fiscal Years contemplated by subparagraph (ii); and

(3) for the Fiscal Years contemplated by subparagraph (ii), Maintenance and Operation Costs shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such Additional Wastewater Parity Obligations, but adjusted if deemed necessary by the District or an Independent Financial Consultant, as applicable, for any increased Maintenance and Operations Costs which are, in the judgment of the District or an Independent Financial Consultant, as applicable, essential to maintaining and operating the Wastewater System and which will occur during the Fiscal Years contemplated by subparagraph (ii).

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

### **Reserve Account**

Under the Trust Agreement, a Reserve Account is created for the Bonds, and shall be held in trust by the Trustee. On the Closing Date, the Trustee shall deposit into the Reserve Account an amount equal to the "Reserve Account Requirement," which is, as of any date of calculation, an amount equal to the least of (i) 10% of the original principal amount of the Bonds; (ii) 125% of Average Annual Debt Service on the Bonds, or (iii) Maximum Annual Debt Service on the Bonds Outstanding. An amount equal to the Reserve Account Requirement shall be maintained in the Reserve Account at all times, subject to the provisions of the Trust Agreement, and any deficiency therein shall be replenished from the first available Revenues pursuant to the Trust Agreement.

Moneys in the Reserve Account shall be used solely for the purpose of replenishing the Interest Account or the Principal Account under the Trust Agreement, in that order, in the event of any deficiency at any time in either such Account. In the event that the amount on deposit in either such Account on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on the Bonds coming due and payable, the Trustee shall withdraw the amount of such insufficiency from the Reserve Account and transfer such amount to the Interest Account and the Principal Account.

Whenever the amount on deposit in the Reserve Account falls below the Reserve Account Requirement, the Trustee will send a notice to the District in writing stating the amount of the deficiency resulting from (i) delinquencies in payments under the Water Installment Sale Agreement, (ii) delinquencies in payments under the Wastewater Installment Sale Agreement, and (iii) a decline in the value of investments in the Reserve Account. Pursuant to the Installment Sale Agreements, the District will deposit with the Trustee the requisite amount from the Revenue Fund under each Installment Sale Agreement to replenish the Reserve Account. In the event that any part of the deficiency in the Reserve Account is due to a decline in the value of investments in the Reserve Account, such replenishment shall be made from the Utility Revenue Fund under each Installment Sale Agreement in proportion to the principal amount of 2012 Installment Sale Payments remaining unpaid under each Installment Sale Agreement, and the written notice from the Trustee shall specify such proportionate amounts.

## **Special Obligation**

The District's obligation to pay the 2012 Installment Sale Payments is a special obligation of the District limited solely to the Net Water Revenues and the Net Wastewater Revenues. Under no circumstances shall the District be required to advance moneys derived from any source of income other than the Net Water Revenues or the Net Wastewater Revenues and other sources specifically identified in the respective Installment Sale Agreement for the payment of such 2012 Installment Sale Payments.

## **Description of Parity Obligations**

The Water Installment Sale Payments and the Wastewater Installment Sale Payments are payable from the Net Water Revenues and the Net Wastewater Revenues, respectively, on an equal basis with the outstanding Series 2011A Bonds.

The District may at any time issue Water Parity Bonds, the payments under and pursuant to which, or execute Water Contracts, the Water Installment Sale Payments under and pursuant to which, as the case may be, are payable from the Net Water Revenues in the Utility Revenue Fund on a parity with the payment by the District of the Water Installment Sale Payments as provided in the Water Installment Sale Agreement. See “ – Additional Parity Obligations – Water System” above. The District may at any time issue Wastewater Parity Bonds, the payments under and pursuant to which, or execute Wastewater Contracts, the Wastewater Installment Sale Payments under and pursuant to which, as the case may be, are payable from the Net Wastewater Revenues in the Utility Revenue Fund on a parity with the payment by the District of the Wastewater Installment Sale Payments as provided in the Wastewater Installment Sale Agreement. See “ – Additional Parity Obligations – Wastewater System” above.

The following table describes the debt service obligations with respect to the Bonds and the outstanding Series 2011A Bonds:

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**TABLE 3**  
**DEBT SERVICE SCHEDULE**  
**(Bonds and Outstanding Parity Obligations)**

Year Ending June 30	Principal of Series 2011A Bonds	Interest on Series 2011A Bonds	Principal of Bonds	Interest on Bonds	Total Debt Service
2012	--	\$ 104,738.19	--	--	\$ 104,738.19
2013	\$355,000.00	401,125.00	\$ 890,000.00	\$ 229,736.95	1,875,861.95
2014	365,000.00	390,475.00	860,000.00	243,100.00	1,858,575.00
2015	375,000.00	379,525.00	890,000.00	225,900.00	1,870,425.00
2016	385,000.00	368,275.00	905,000.00	208,100.00	1,866,375.00
2017	400,000.00	356,725.00	945,000.00	171,900.00	1,873,625.00
2018	415,000.00	340,725.00	985,000.00	134,100.00	1,874,825.00
2019	435,000.00	324,125.00	1,030,000.00	94,700.00	1,883,825.00
2020	450,000.00	306,725.00	<u>1,070,000.00</u>	<u>53,500.00</u>	1,880,225.00
2021	470,000.00	288,725.00			758,725.00
2022	490,000.00	271,575.00			761,575.00
2023	510,000.00	249,525.00			759,525.00
2024	530,000.00	227,925.00			757,925.00
2025	550,000.00	206,725.00			756,725.00
2026	580,000.00	184,725.00			764,725.00
2027	600,000.00	161,525.00			761,525.00
2028	635,000.00	132,325.00			767,325.00
2029	660,000.00	101,450.00			761,450.00
2030	695,000.00	69,350.00			764,350.00
2031	<u>730,000.00</u>	<u>35,525.00</u>			<u>765,525.00</u>
<b>Totals</b>	<b>\$9,630,000.00</b>	<b>\$4,901,813.19</b>	<b>\$7,575,000.00</b>	<b>\$1,361,036.95</b>	<b>\$23,467,850.14</b>

Source: Underwriter.

### THE AUTHORITY

The Authority is a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California pursuant to a Joint Exercise of Powers Agreement, dated as of July 1, 2011, by and between the District and the California Municipal Finance Authority. The Authority was created as of July 1, 2011, to finance the cost of any capital improvement, working capital, or liability and other insurance needs, or projects wherever there are significant public benefits, as determined by the District.

The Authority is administered by a governing board comprised of all of the individuals who currently comprise the Board of the District. The Authority has no independent staff.

### THE DISTRICT

#### General

The District was originally formed under the Law in 1962 as the Camarillo Water District for the purpose of supplying potable water. The District has changed its name twice, first to the Camrosa County Water District in 1965, and then to its present name in 1987. Subsequently, the District expanded its operations to include wastewater collection and treatment to a portion of its service area. Currently, the District provides three classes of water (potable, non-potable, and recycled) service to its customers, along with wastewater collection and treatment service to a portion of the District. Potable water is a

blend of imported State Water Project (“SWP”) water from the Sacramento-San Joaquin Delta and local groundwater; non-potable surface water is a combination of diverted surface water and local groundwater; and recycled water is tertiary-treated product from the Camrosa Water Reclamation Facility (the “CWRP”). See “THE WATER SYSTEM.”

The District is located in the County of Ventura, California (“Ventura County”), and includes within its boundaries the unincorporated Santa Rosa Valley and the eastern portion of the City of Camarillo. The District is among the largest water districts in Ventura County in number of connections and population served. With a service area of more than 31 square miles, the District serves a population of approximately 27,000 through 11,261 metered water connections. As of June 2011, the District had approximately 11,138 municipal and industrial water connections and 123 agricultural water connections. Within the territory of the District, the District is the sole provider of water service to municipal and industrial customers, and provides an alternative source of supply for those agricultural customers operating private wells. The District also provides wastewater service to approximately 8,698 connections.

**Land and Land Use**

The District contains approximately 18,500 acres of land in Ventura County, of which approximately 10,400 acres are developed or zoned for development, primarily as residential housing. Approximately 5,200 acres are currently used for agriculture. The remaining approximately 2,900 acres comprise unirrigated hillsides or open space. The District expects that land currently zoned for development in the District will continue to be converted to residential and commercial uses. Population in the District is expected to exceed 36,000 by 2035.

**Governance and Management**

*Directors.* The District is governed by a five-member Board of Directors (the “Board”). The Directors are elected by the registered voters in the District to staggered four-year terms. The current Directors are listed in the following table:

**TABLE 4  
CAMROSA WATER DISTRICT  
BOARD OF DIRECTORS**

<u>Director</u>	<u>Title</u>	<u>Division</u>	<u>Expiration of Term</u>	<u>Occupation</u>
Al E. Fox	President	Division 1	November 2014	Realtor
Eugene F. West	Vice President	Division 4	November 2012	Attorney
Jeffrey C. Brown	Director	Division 2	November 2014	Investment Consultant
Timothy H. Hoag	Director	Division 3	November 2012	Pharmacist/Teacher
Terry L. Foreman	Director	Division 5	November 2014	Geologist

Source: District.

A brief biography of each Director is set forth below:

***Al E. Fox.*** Since retiring from the United States Navy in 1977 after 21 years of honorable service, Mr. Fox and his wife, Cindy, have made their home in Camarillo. He has served on numerous realtor association committees and served as Treasurer, Vice President, and President

of the Camarillo Association of Realtors. In 1994, he was named Realtor of the Year. He is past chairman and a member of the Ventura County Coastal Association of Realtors' Professional Standards Committee and is a Certified Mediator. Mr. Fox, his wife, and his daughter, Nancy, currently service the local real estate market as The Fox Real Estate Team. Mr. Fox currently serves as the President of the Board and is the Director for Division 1 of the District.

**Jeffrey C. Brown.** Mr. Brown has been a registered representative for several major international brokerage firms. Mr. Brown worked in a management position for Security Pacific National Bank after graduation in 1977 from the University of Southern California with a Bachelors Degree in Finance and is currently with LPL Financial Services. He is active in his church and other various philanthropic endeavors. He and his wife, Cindy, spend most of their spare time with their four adult children and eight grandchildren. Mr. Brown has lived in the City of Camarillo for over 25 years. Mr. Brown is currently the Director for Division 2 of the District.

**Timothy H. Hoag.** Mr. Hoag attended Ohio State University and graduated from Idaho State University with a Bachelor of Science Degree in Pharmacy. Mr. Hoag is a registered pharmacist in good standing and has practiced pharmacy for over twenty years. He has worked all levels of pharmacy and has owned and operated his own independent pharmacy. He obtained his teaching credential from California Lutheran University and is currently teaching chemistry at Thousand Oaks High School. He earned his Masters of Arts in Education with an emphasis on Leadership at California State University, Channel Islands. Mr. Hoag is past President of the Ventura County Special Districts Association. He has lived in the Santa Rosa Valley for over 30 years. Mr. Hoag is currently the Director for Division 3 of the District.

**Eugene F. West.** Mr. West is a founding partner at the law firm of West & Miyamoto. For over 25 years, his practice has emphasized the defense of various insurance companies and their insureds. As a trial lawyer and negotiator, Mr. West has represented clients in all state courts and federal courts in the State of California. He has also served as an arbitrator for the Los Angeles Superior Court and the Ventura County Superior Court. Before practicing law, Mr. West worked in the insurance industry as an underwriter, claims adjuster, associate risk manager, and licensed insurance agent with property and casualty, life, health, and disability licenses. Mr. West has lived in Ventura County for approximately 30 years and has been a resident of the Santa Rosa Valley for more than 17 years. Mr. West currently serves as the Vice President of the Board and is the Director for Division 4 of the District.

**Terry L. Foreman.** Mr. Foreman is a Registered Geologist and Certified Hydrogeologist in California. He is a Vice President of CH2M Hill, a global leader in consulting, design, design-build, operations, and program management. Mr. Foreman has numerous years of experience in water resources, assisting public and private agencies in dealing with water supply quantity and quality issues throughout the southwestern United States. He is a member of a number of water-related professional organizations. Mr. Foreman attended Santa Barbara City College and he holds Bachelors and Masters Degrees in Geology from the University of Missouri at Columbia. Mr. Foreman is married and has two children. He and his family have been residents of Camarillo and Camrosa customers since 1993. Mr. Foreman is currently the Director for Division 5 of the District.

***Management.*** Day-to-day management of the District is delegated to the General Manager. A brief biography of the current Interim General Manager, Tony L. Stafford, is set forth below:

**Tony L. Stafford.** Mr. Stafford has an extensive background in management and operations. He worked for Conoco Inc. for 16 years in the Systems Group specializing in oil field

automation. He finished his tenure with Conoco as a Supervising Systems Specialist responsible for electrical/automation design and implementation throughout Kansas, Northern Oklahoma, South Texas, and Southern California. He moved to Ventura County in 1990 and joined Camrosa Water District in 1994 as the Superintendent of Operations. He was promoted to Operations Manager in 2004 and then to Deputy General Manager in 2008 before becoming the Interim General Manager in 2011. He graduated from Oklahoma State Tech from the Industrial Electronic program and later graduated from Ashford University with a Bachelor Degree in Organizational Management with a concentration in Engineering Studies. Mr. Stafford and his wife, Phyllis, have two adult children and two grandchildren.

## **Strategic Plan**

In October 2008, the Board completed a new, long-range Strategic Plan (the “2008 Strategic Plan”). In reevaluating the core business services the District provides to its customers, the 2008 Strategic Plan revised the District’s mission as follows:

The Mission of Camrosa Water District is to meet the current and future needs of the community for water and sanitary services. Our products and services will be reliable, affordable, responsive and of high quality. At the same time, the District will prudently manage and maintain the District’s assets, honor the public’s trust, and maintain public awareness and confidence in the District’s activities.

The primary strategies necessary to fulfill this mission are outlined in the 2008 Strategic Plan and are summarized as follows:

- Develop independence from imported water deliveries
- Strengthen the District’s financial position
- Fully develop staff potential
- Improve systems operations and maintenance
- Educate customers
- Protect water supplies
- Exceed all regulatory standards

The 2008 Strategic Plan became the foundation for a significant update to the District’s new Integrated Facilities Master Plan (“FMP”), which is expected to be completed by the end of 2012. The majority of the changes to the FMP focus on increasing self-reliance through the use of local water resources to offset SWP water imports. Constructing desalination facilities, increasing groundwater production for both potable and non-potable use, and expanding the non-potable water distribution system are three categories of projects that have been identified, analyzed, and presented in the FMP. Funding for these projects is discussed briefly in the FMP and in the District’s Capital Financing Plan, which has been accepted by the Board in draft form for the current fiscal year. In addition to the more traditional sources of funding, the District is applying for a grant from the State of California provided by Proposition 84 to assist in funding the Round Mountain Water Treatment Plant (“RMWTP”).

The 2008 Strategic Plan also focuses on strengthening the District’s financial position through the development of a rate structure that provides for the capital replacement of aging infrastructure. Capital replacement is necessary to maintain the long-term integrity of the various water treatment and distribution systems, the wastewater collection system, and the CWRF. The steps taken to strengthen the District’s financial position have led to the development of a long-term Capital Financing Plan to meet the District’s capital needs. The Capital Financing Plan has reduced the District’s reliance on property tax revenue to meet operating expenditures and improved the District’s debt service ratios and reserve

position. In addition to increasing self-reliance and offsetting SWP imports, the District intends to complete additional capital improvement projects to the water, non-potable water and wastewater systems to improve operational reliability. See “THE WATER SYSTEM – Current Water System Improvements” and “THE WASTEWATER SYSTEM – Current Wastewater System Improvements.”

### **District Powers**

Under the Law, the District has broad general powers over the use of water within its boundaries, including the right of eminent domain and the authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, process, and salvage any water for beneficial use, to provide wastewater service, to sell treated or untreated water, to contract with the United States, other political subdivisions, public utilities, or other persons, and, subject to constitutional limitations, to levy taxes on lands.

### **Employees and Employee Benefits**

The District currently employs 22 full-time persons, of which eight work in operations and maintenance, three work in engineering and 11 work in administration. None of the District’s employees are represented by a union, and the District has not experienced a strike or other labor action.

The District is a member of the California Public Employees’ Retirement System (“PERS”), a multiple-employer pension system that provides a contributory defined benefit pension plan for all full-time District employees. The District covers both its own and the employee’s contributions to each employee’s PERS account. For Fiscal Year 2010-11, the District’s annual pension cost of \$212,162 for PERS was equal to the District’s required and actual contributions. The required contribution was determined as part of a June 30, 2009, actuarial valuation. The District’s normal pension costs, which are determined by PERS using the Entry Age Normal Actuarial Cost Method, are funded currently. The District currently has no unfunded actuarial liability.

### **Budget Process**

Prior to June 1 of each year, the General Manager of the District submits to the Board a proposed budget for the District for the Fiscal Year commencing the following July 1 and the Board approves the budget prior to July 1. The Fiscal Year 2011-12 District Budget was adopted by the Board at its regular meeting of June 8, 2011.

The District’s budget is prepared on the accrual basis and includes the District’s Water and Wastewater Systems. The District sets water rates and wastewater service charges to cover the operating expenses, administrative expenses, debt service, and routine capital replacement costs of the particular service provided. Capital replacement and improvement projects are additionally funded by connection fees and surplus revenues.

### **Investment Policy**

The District’s Investment Policy, the most recent version of which was adopted by resolution of the Board on August 24, 2011, is intended to provide guidelines and restrictions for prudent investment of the District’s cash reserves. The District’s portfolio is carefully monitored by a four-member committee that includes the General Manager, the Business Services Manager, and two Board members. The full Board receives quarterly reports on the type of investments, the current yield, maturity dates, and market value, as appropriate. The criteria for selecting investment options, are, in order of priority: safety; liquidity; and yield. Generally, maturities are limited to two-year periods and at least 25% of the portfolio will be invested in securities that can be liquidated on one day’s notice. Generally, investments are limited

to governmentally issued or governmentally insured securities. Currently, the District has approximately \$6.3 million invested in the State's Local Agency Investment Fund.

### **Reserve Policy**

The District's Reserve Policy, the most recent version of which was adopted by resolution of the Board on June 22, 2011, is intended to assure adequate reserves for ongoing needs while minimizing the need for new debt. The reserve levels established in the policy also help provide rate stabilization and ensure adequate fund levels to meet aging infrastructure replacements, unanticipated emergencies, and future expansion needs of the District. The Board receives a semi-annual report of the reserve levels during the budget preparation process to ensure continued conformance with long-term Board strategy.

### **District Insurance**

The District is self-insured through participation with the Association of California Water Agencies Joint Powers Insurance Authority (the "ACWA/JPIA"). The ACWA/JPIA provides liability, property, and worker's compensation insurance for the District, which is one of approximately 265 participating water districts and agencies, for losses in excess of the member districts' specified self-insurance retentions levels. The District maintains general liability insurance in the amount of \$60,000,000 per occurrence with an annual aggregate limit of \$60,000,000. Both aggregate and per occurrence limits are based on excess insurance or reinsurance purchased by the ACWA/JPIA. Liability insurance includes coverage for bodily injury, property damage, errors and omissions, and personal injury. The District also carries property insurance in the amount of the District's total insurable values: \$10,816,490 and 30 vehicles, guaranteed replacement cost for buildings, fixed equipment, and personal property, subject to \$5,000 deductible. Automobile coverage is included in either property insurance or liability insurance, depending upon the nature of the claim. The District's self-insured retention is \$5,000 per occurrence for liability, buildings, and personal property. The District's self-insured retention is \$1,000 for mobile equipment and \$500 for vehicles.

### **Property Tax Revenues**

*General.* The County levies a 1% property tax on behalf of all taxing agencies in the County, including the District. The taxes collected are allocated to taxing agencies within the County, including the District, on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, and inflation) prorated among the jurisdictions that serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas that were developed to permit the levying of taxes for less than county-wide or city-wide special districts.

The Teeter Plan is an alternative secured property tax distribution plan that provides California counties with an optional alternative method for allocating delinquent property tax revenues. Under the Teeter Plan, counties allocate and distribute property tax revenues to local agencies based on the total amount of property taxes billed, but not yet collected, and, in exchange, such counties receive the right to keep all delinquent taxes, penalties, and interest. The District does not receive property taxes in accordance with the Teeter Plan.

The District received \$506,299 in Fiscal Year 2010-11 from the District's share of the County's 1% property tax. The District has established a Water Rate Stabilization Fund and a Wastewater Rate Stabilization Fund equal, in the aggregate, to a minimum of one year of property tax revenues to dampen the need for any rate adjustment in the event of a single-year reallocation of property tax revenue, a

sudden or unanticipated wholesale water rate increase, or an unanticipated increase of water and wastewater operational costs.

The District currently allocates property tax revenues 100% to the Water System on an equity basis to all water customers in the District.

**Assessed Valuations, Tax Collections, and Tax Delinquencies**

The following table sets forth recent assessed valuations, secured tax charges, and rates of delinquencies within the District.

**TABLE 5**  
**CAMROSA WATER DISTRICT**  
**ASSESSED VALUATION AND SECURED TAX CHARGES**  
**AND DELINQUENCIES**

*Assessed Valuations*

<u>Fiscal Year</u>	<u>Secured Assessed Valuation</u>	<u>Unsecured Assessed Valuation</u>	<u>Total</u>
2006-07	\$4,294,229,888	\$221,544,506	\$4,515,774,394
2007-08	4,635,141,211	238,123,079	4,873,264,290
2008-09	4,701,419,944	256,976,589	4,958,396,533
2009-10	4,598,600,950	276,492,368	4,875,093,318
2010-11	4,562,003,372	261,933,824	4,823,937,196

*Secured Tax Charges and Delinquencies*

<u>Fiscal Year</u>	<u>Secured Assessed Charge</u>	<u>Amount Delinquent June 30</u>	<u>Percent Delinquent June 30</u>
2006-07	\$447,108	\$12,468	2.79%
2007-08	476,741	24,165	5.07
2008-09	493,864	7,361	1.49
2009-10	451,359	41,052	9.1
2010-11	479,879	8,204	1.7

Source: District.

**THE WATER SYSTEM**

**Potable Water Facilities**

The District operates four wells that extract local groundwater from the Santa Rosa Groundwater Basin, one that extracts from the Tierra Rejada Groundwater Basin, and one that extracts from the Pleasant Valley Groundwater Basin. These sources of groundwater allow the District to blend locally produced water with imported SWP water in order to provide the District’s customers with a quality supply at the lowest possible cost. The District also maintains 10 reservoirs ranging in individual capacity from three million gallons to 100,000 gallons of water, with an overall storage capacity of 14.3 million gallons of water.

The District’s water distribution system includes over 150 miles of pipelines within its 18,500-acre service area, ranging in size from 4 inches to 24 inches in diameter and providing water for residential, commercial, and agricultural use. The District operates five pumping stations to provide

service to properties ranging from 50 feet to 1,050 feet above sea level. The District delivers between 15,000 and 17,000 acre feet (4.9 billion to 5.5 billion gallons) of water annually.

Other District water system facilities include thirteen connections to Calleguas (which connections allow the District to purchase imported SWP water), pressure reducing vaults, pressure-relief stations, and the District's chlorination station.

The operations of the Water System can be monitored and controlled automatically and remotely through an advanced, wireless Supervisory Control and Data Acquisition ("SCADA") system. The District is in the process of upgrading the SCADA system to an Ethernet network and installing Automatic Meter Readers ("AMRs") on all meters. Approximately two-thirds of the meters in the District have been converted to AMRs, which conversion permits more accurate and more frequent readings of meters and, therefore, more immediate leak detection. In addition, this equipment provides automatic alarms to alert District personnel in the event of system malfunctions.

### **Non-potable Water Facilities**

Prior to the completion of the Conejo Creek Diversion Project, the District's non-potable water distribution system was limited to a portion of the District that received "Blended Ag" water, which was local groundwater blended with SWP water in order to control chloride levels. At that time, two pump stations and three tanks, each 100,000 gallons or smaller, comprised the non-potable water distribution system infrastructure. Blended Ag water is still delivered to certain areas in the District that require low-chloride water at a price below that of imported SWP water, but Blended Ag water now includes non-potable surface water from the Conejo Creek.

The completion of the Conejo Creek Diversion Project in 2002 inaugurated the District's non-potable surface water distribution system. The project diverts the majority of the flows in Conejo Creek, which is a combination of local runoff and tertiary-treated product from Hill Canyon Treatment Plant upstream. The project was designed to provide up to 10,000 acre-feet per year ("AF/Y") of non-potable surface water for irrigation use in the District and the project currently operates within an optimal percentage of its capacity; in Fiscal Year 2010-11, 9,462 acre-feet were diverted from Conejo Creek. Surplus non-potable water is sold at a discounted rate to the Pleasant Valley County Water District and helps offset pumping of the over-drafted Oxnard Forebay. The agreement underlying the Conejo Creek Diversion Project is scheduled to expire in 2027. The District has commenced negotiations with the other parties to such agreement to, among other things, extend such agreement to 2036.

The expansion of the non-potable surface water distribution system required that non-potable storage and pumping capacity be increased. Potable reservoir 1A, a 2.0 million gallon reservoir, was converted for use in the non-potable system, bringing total storage capacity up to 2.2 million gallons. The Ponds, which are four 150-acre-foot surface storage receptacles, make up an additional storage facility. Two of the Ponds are dedicated to the non-potable surface water distribution system, a third is primarily used for storing product from the CWRP, and the fourth is an overflow pond reserved to capture water during extended wet periods. The Ponds have their own pump station to send water into the non-potable surface water distribution system and surplus water to the Pleasant Valley County Water District. The Ponds' pump station makes up one of five pump stations in the non-potable water distribution system.

Non-potable water diverted from the Conejo Creek has provided the opportunity to offset imported SWP water by expanding the non-potable distribution system. The non-potable portion of the dual-plumbed system of the Santa Rosa Mutual Water Company, which the District acquired in 2000, was the first such system to be supplied with diverted surface water. In 2008, Leisure Village, a retirement community within the District boundaries, transferred a record of roughly 500 AF/Y of irrigation demand

to the non-potable water system. In Fiscal Year 2010-11, 5,296 acre-feet of non-potable water was delivered to District customers via the non-potable surface water distribution system. This volume is expected to increase over the next 25 years, but the amount and rate of such increase will be determined by the extent and rate of the non-potable distribution system expansion.

The District produces approximately 1,600 AF/Y of tertiary-treated “Title-22” recycled water at the CWRP. This water is delivered to customers for irrigation through a separate non-potable recycled water distribution system. Approximately 447 acre-feet of recycled water was delivered in 2001, primarily to agricultural use in the vicinity of the CWRP. As California State University Channel Islands (“CSUCI”) has grown and converted its irrigation system to use recycled water, deliveries of Title-22 water have grown. In Fiscal Year 2010-11, the District delivered 960 acre-feet of tertiary-treated recycled water to customers within District boundaries. As CSUCI continues to expand its non-potable recycled water irrigation system and the agricultural market for recycled water expands, the District expects that all of the recycled water produced by the CWRP will be delivered to local users.

### **District Water Supply**

**General.** The District currently has six sources of water supply: groundwater pumped from three separate groundwater basins (the Santa Rosa, Tierra Rejada, and Pleasant Valley Groundwater Basins), water purchased from the Metropolitan Water District of Southern California (“MWD”), non-potable surface water diverted from Conejo Creek, and recycled water from the CWRP. MWD imports water into southern California, including SWP water from northern California and Colorado River water. The District purchases MWD water through Calleguas, a sub-agency of MWD.

Historically, the District has relied upon SWP water, imported from MWD via Calleguas, for approximately 85% of its potable water supplies and upon local groundwater for the remainder. As local resources were developed, the volume of water imported declined to 68% of the total water demand. Although the population within the District’s service area continues to grow, the District expects to develop sufficient local potable resources to reduce this ratio to less than 50%. The District is currently evaluating opportunities that may allow the District to become more self-reliant and reduce the volume of SWP water imports.

The growth of the non-potable surface water distribution system and the expansion of the reclaimed water distribution system onto the CSUCI campus have made non-potable irrigation a vital and significant tool in the District’s effort to reduce dependence on imported SWP water. The District expects its self-reliance to increase as the non-potable and recycled water distribution systems continue to be expanded.

**MWD Water.** The District has access to MWD water through Calleguas’ purchase entitlement as a constituent agency of the MWD. MWD obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the SWP via the Edmund G. Brown California Aqueduct. Because of its location in Ventura County, Calleguas receives only water supplied to MWD from the SWP.

The SWP is owned by the State and operated by the California Department of Water Resources. MWD is one of 30 agencies that have contracted for water service from the State. MWD’s water supply contract, which entitles MWD to 2,011,500 acre-feet of water annually, expires in 2035. The SWP water is transported from the Sacramento-San Joaquin Delta via the California Aqueduct to four delivery points near the northern and eastern boundaries of the MWD service area.

***Long-Term Adequacy of MWD/Calleguas Water.*** MWD is projecting increased water usage in its service area. MWD sub-agencies, such as Calleguas, will place greater demand on MWD supplies as growth or reduction of reliability of local supplies occurs. MWD entitlements to State and federal water projects are finite, and future availability of water from MWD may be impacted by structural and economic factors. MWD has historically allocated water supplies through pricing structures.

MWD and Calleguas have both made significant strides in developing off-line storage to augment deliveries during future drought years. MWD has constructed Diamond Valley Lake with a capacity of 800,000 acre-feet. This off-stream storage has significantly increased the reliability of southern California's water supply during drought years. In addition, Calleguas has developed the Las Posas Aquifer Storage and Recovery system that will allow surplus SWP water to be stored in local aquifers for use during dry years. Approximately 300,000 acre-feet of storage is available in the Las Posas Aquifer; approximately 35,000 acre-feet are currently in storage. MWD and Calleguas have indicated that, for the next 10 years, they expect to be 100% reliable in meeting all anticipated demands.

***Adequacy of MWD/Calleguas Water Supplies – State Water Project.*** The designed annual water supply or “firm yield” of the SWP is approximately 2,400,000 acre-feet. Entitlements to contractors of the SWP are approximately double the firm yield. Although the State Water Resources Control Board is continuing efforts to increase the yield of the SWP, no assurances can be given that additional water supplies will be secured.

California's water supply has faced a number of water resources management challenges in recent years due to declining ecosystems, greater drought impacts, aging infrastructure, increasing flood risk, and impaired water bodies. In addition, climate change and population growth are further stressing California's water systems. The Sacramento-San Joaquin Delta is the hub of coastal southern California's water delivery system and faces many challenges, including recent court decisions designed to curtail Sacramento-San Joaquin Delta exports in order to protect its ecological environment.

In June 2008, as a result of two years of below-average rainfall, low snowmelt runoff, and the largest court-ordered water transfer restrictions in State history, Governor Schwarzenegger declared a Statewide drought and issued an executive order to mandate water conservation. MWD mandated a 15% water allocation reduction to member agencies effective July 2009, in response to the continuing water shortage in southern California. The District demonstrated that its strategy to develop self-reliance was effective in dealing with such reductions. While there was a voluntary call for conservation, the District achieved mandated reductions through expansion of the non-potable water distribution system to reduce potable irrigation demand. The volume of imported water deliveries has been reduced from approximately 9,300 AF/Y in 2000 to 6,300 AF/Y in 2010. In 2011, the volume of imported water deliveries was further reduced to approximately 5,600 AF/Y, primarily due to an abnormally wet and cool year and voluntary conservation by the District's customers.

California continues to face significant water supply challenges due to ongoing pumping restrictions in the Sacramento-San Joaquin Delta to protect endangered fish and restore the ecosystem. The water crisis will continue until California's water conveyance system enables increased water storage and the complex environmental problems of the Sacramento-San Joaquin Delta are resolved. 2010 was an abnormally wet and cool year, the fall and winter of which produced the largest Sierra Nevada snowpack in 17 years. While this significantly eases concerns in the short term, the underlying problem – a larger demand in southern California than available supply – remains.

***Adequacy of Supply – Local Groundwater.*** The District currently pumps approximately 3,180 AF/Y of groundwater from the Santa Rosa Groundwater Basin, an unadjudicated basin that is currently under-utilized. In addition, approximately 500AF/Y of groundwater are extracted from the Tierra Rejada

Basin. Available yield from the Pleasant Valley Basin is allocated by the Fox Canyon Groundwater Management Agency. The District’s current allocation is 807 AF/Y, which is produced by one well, the Woodcreek Well. This well can be operated as an injection/extraction facility. Although the District rarely injects water into the well, the well is capable of holding water injections for storage and future extraction by the District, if necessary.

The Penny Well, a potable water well taken offline in 1999, is expected to be restored to service by the end of Fiscal Year 2012-13. Depending on its quality, Penny Well water may contribute to either the potable system or the non-potable system; either way, its expected yield of 350 AF/Y will help further offset SWP imports. By 2013, the District plans to have completed the RMWTP, a 1 MGD desalination facility that will treat brackish groundwater in the Perched Aquifer and will have the potential to produce 1,120 AF/Y of potable water. See “THE WATER SYSTEM – Current Water System Improvements.” Projected groundwater extractions after the completion of the RMWTP will be roughly 6,500 AF/Y, which amounts to approximately 25% of projected water supplies produced and roughly one third of all deliveries within District boundaries. A second well in the Perched Aquifer, the Adhor Well, could be available as a source by 2020, and a second well in the Tierra Rejada Basin could add an additional 350 AF/Y, also by 2020.

### Historic Water Deliveries

The District records the volume of water delivered by the Water System. The following table presents a summary of historic potable water deliveries of the District in AF/Y for the five most recent Fiscal Years.

**TABLE 6**  
**CAMROSA WATER DISTRICT**  
**WATER DELIVERIES BY CLASS IN AF/Y**  
**(Fiscal Years 2007 through 2011)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Potable Water</b>					
Residential	7,011	7,285	6,312	5,397	5,464
Commercial/Industrial	1,023	880	728	579	570
Institutional and Governmental	567	642	476	422	413
Landscape	748	713	747	653	669
Agriculture	2,359	1,585	1,061	506	534
Other (Misc)	<u>17</u>	<u>36</u>	<u>11</u>	<u>12</u>	<u>13</u>
<b>Total Potable Water</b>	<b>11,725</b>	<b>11,141</b>	<b>9,335</b>	<b>7,569</b>	<b>7,663</b>
<b>Non-Potable Water</b>					
Surface Water: Landscape	839	1,166	1,436	1,253	1,146
Surface Water: Agriculture	4,295	4,802	4,834	4,567	4,150
Recycled Water: Landscape & Ag	<u>755</u>	<u>499</u>	<u>986</u>	<u>945</u>	<u>1,000</u>
<b>Total Non-Potable Water</b>	<b><u>5,889</u></b>	<b><u>6,467</u></b>	<b><u>7,256</u></b>	<b><u>6,765</u></b>	<b><u>6,296</u></b>
<b>Total Water</b>	<b>17,614</b>	<b>17,608</b>	<b>16,591</b>	<b>14,334</b>	<b>13,959</b>

Source: District.

The significant decline in potable water consumption reflects the concerted effort to expand non-potable water deliveries within the District, two consecutive wet cool seasons, and voluntary conservation by the District’s customers.

The following table sets forth the sources of supply for water deliveries in acre-feet for the five most recent Fiscal Years.

**TABLE 7**  
**CAMROSA WATER DISTRICT**  
**HISTORIC WATER DEMAND/SOURCES**  
**(Fiscal Year 2007 through 2011)**  
**(acre-feet)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Total Demand</b>	<b>17,614</b>	<b>17,608</b>	<b>16,591</b>	<b>14,334</b>	<b>13,959</b>
<b>Sources of Supply Groundwater</b>					
Tierra Rejada Basin	679	496	458	482	435
Santa Rosa Basin	2,517	2,501	2,344	1,755	1,666
Pleasant Valley Basin	745	669	927	819	720
Perched Aquifer	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Groundwater</b>	<b>3,941</b>	<b>3,666</b>	<b>3,729</b>	<b>3,056</b>	<b>2,821</b>
<b>Imported Water</b>					
Calleguas Municipal Water District	<u>9,412</u>	<u>9,197</u>	<u>7,188</u>	<u>6,267</u>	<u>5,551</u>
<b>Total Imported Water</b>	<b>9,412</b>	<b>9,197</b>	<b>7,188</b>	<b>6,267</b>	<b>5,551</b>
<b>Non-Potable Irrigation Water</b>					
Conejo Creek/HCWWTP (Surface)	3,241	3,248	4,167	4,465	3,743
Conejo Wells	847	1,093	1,186	845	1,178
SWP Water for Non-Potable System	1,031	998	805	741	530
Camrosa WRF (Recycled)	830	516	980	926	899
CamSan WWTP (Recycled)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Non-Potable Water</b>	<b>5,949</b>	<b>5,855</b>	<b>7,138</b>	<b>6,977</b>	<b>6,350</b>
<b>Total Sources of Production</b>	<b>19,302</b>	<b>18,719</b>	<b>18,054</b>	<b>16,300</b>	<b>14,722</b>
<b>Total Surplus Water</b>	<b>1,688</b>	<b>1,111</b>	<b>1,463</b>	<b>1,966</b>	<b>763</b>
<b>Total Water Supply Available</b>	<b>26,639</b>	<b>26,639</b>	<b>26,639</b>	<b>25,436</b>	<b>25,436</b>

Source: District.

## Largest Water Customers

The following table sets forth the 10 largest customers of the Water System as of June 2011 as determined by total acre-feet purchased.

**TABLE 8**  
**CAMROSA WATER DISTRICT**  
**TEN LARGEST WATER CUSTOMERS**  
**(As of June 2011)**

<u>Customer</u>	<u>Water Usage</u>	<u>Acre-Feet</u>	<u>Annual Revenue</u>
Leisure Village	Residential	814.8	\$ 640,267.58
Reiter Brothers, Inc.	Agricultural	1227.5	597,680.79
CSUCI	Government	419.6	335,253.25
Tierra Rejada Golf Course	Commercial	262.0	296,849.35
Boskovich Farms	Agricultural	904.6	287,337.17
3H Cust Farming/Hansen	Agricultural	815.2	150,089.90
Brucker Farms	Agricultural	653.5	137,510.73
Pleasant Valley Rec & Park District	Government	84.6	100,574.46
Hartman Ranch, Inc.	Agricultural	205.0	89,223.51
Camarillo Springs HOA	Residential	<u>62.2</u>	<u>86,290.34</u>
<b>Total Acre-Feet/Revenue</b>		<b>5,448.9</b>	<b>\$2,721,077.08</b>

Source: District.

These 10 largest customers of the Water System accounted for approximately 23% of water service revenues in Fiscal Year 2010-11. Leisure Village, the largest customer, represents approximately 5% of the District's water service revenues. Leisure Village is a master metered retirement community consisting of 2,136 single family, occupant-owned dwellings. Leisure Village uses non-potable irrigation water for all its landscaping needs, including an 18-hole golf course. In 2009, Leisure Village completed a 10-year engineering, construction, and recycling water retrofit project that is expected to save the retirement community approximately 580 acre-feet of drinking water per year. Leisure Village's Home Owners Association is governed by an elected board of directors and managed by a full-time general manager and staff.

## Water System Rates and Charges

**General.** The District increases water service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserve levels consistent with Board policy. Most recently, the Board adopted a 4% potable general water rate increase effective January 1, 2011.

**Rate Increases.** The Board has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the District is required under Proposition 218 to conduct a public hearing and receive protests. If the District should receive a majority written protests from its

customers, the District would not impose the increased rate or charge. See “CONSTITUTIONAL PROVISIONS AFFECTING SYSTEM REVENUES AND EXPENDITURES – California Constitution Article XIII C and Article XIII D Limitations.”

***Pass-through Ordinance.*** California Government Code Section 53756 permits agencies such as the District to adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water or adjustments for inflation, if such agencies comply with the requirements specified therein. On December 9, 2009, the Board incorporated a “pass-through” provision to automatically adjust the water commodity rates to accommodate increases or decreases in the wholesale charge for water established by another wholesale water agency. The provision allows for automatic rate increases for a period not to exceed five years before requiring another scheduled public hearing.

Effective January 1, 2011, MWD increased its Tier 1 supply rates by 6.13% and its Tier 2 supply rates by 7.15%. In addition to MWD’s rate increases, Calleguas increased its Capital Construction Surcharge by 26.2%, also effective on January 1, 2011. The increase in the Capital Construction Surcharge is mitigated, however, by the elimination of a \$38 per acre-foot rate deferral surcharge that was a one-year surcharge necessary to defer the Fiscal Year 2009-10 MWD increase from September 2009 to January 1, 2010. The increase in the commodity costs of imported water to the District from the combined MWD and Calleguas rate increase is approximately 9%. The District uses a blend of local water resources and imported water to meet drinking water demands within the District. Effective January 2011, the District initiated the pass-through and increased its potable water rates approximately 4%.

Effective January 1, 2012, MWD increased its Tier 1 supply rates by 6.7% and its Tier 2 supply rates by 5.9%. Calleguas’ 2012 rates increased by 10.5%. The total increase in the cost of imported water to the District is 7.6%.

The pass-through rate increase for the increased cost of imported water effective January 2012 was deferred until a comprehensive rate study has been completed. The District has solicited proposals for a comprehensive water and wastewater rate study. The District anticipates commencement of such study in February 2012. Completion of the study, including a formal rate hearing, is anticipated to occur in June 2012. The proposed rate increases are expected to include the increased cost of imported water and cost of services for the water and wastewater operations. The Board of Directors will consider implementing a pass-through rate increase, however, prior to the completion of the rate study and the formal rate hearing in the event that the imported water purchases adversely affect the financial operating results of the District.

***Water Service Charges.*** The District has separated its customer base into various classes and rates charged to each class of customer varies. The following table shows the current rates by customer class. All water is billed in units of one hundred cubic feet (“HCF”).

**TABLE 9**  
**CAMROSA WATER DISTRICT**  
**WATER RATES**  
**(By Customer Class)**

<u>Class</u>	<u>Rates Per Unit</u>
<i><b>Potable Water</b></i>	
Residential/Master Metered	\$2.26 first 12 Units; \$2.63 each Unit over 12
Commercial, Industrial & Institutional	\$2.63
Temporary Service	\$2.63
<i><b>Non-Potable/Recycled Water</b></i>	
Non-Potable Irrigation Water	\$0.70
Blended Non-Potable Agricultural	\$1.82
Non-Potable Commercial Agricultural	\$0.46
Recycled Commercial Agricultural	\$0.37
Recycled Landscape Irrigation	\$0.55
Recycled Surplus Water (served outside District boundaries)	\$0.49

Source: District.

The following table shows the monthly minimum service charge based on meter size and customer class.

**TABLE 10**  
**CAMROSA WATER DISTRICT**  
**MONTHLY MINIMUM SERVICE CHARGE**  
**(By Meter Size and Customer Class)**

<i><b>Domestic</b></i>	
Master Meter – \$8.43	2.00 inch – \$45.87
0.75 inch – \$8.60	3.00 inch – \$100.33
1.00 inch – \$14.33	4.00 inch – \$172.00
1.50 inch – \$28.67	6.00 inch – \$258.00
<i><b>Domestic Agriculture</b></i>	
0.75 inch – \$17.03	2.00 inch – \$54.30
1.00 inch – \$22.76	3.00 inch – \$108.76
1.50 inch – \$37.10	4.00 inch – \$180.43
<i><b>Agriculture</b></i>	
1.00 inch – \$14.33	3.00 inch – \$36.63
1.50 inch – \$22.30	4.00 inch – \$62.51
2.00 inch – \$29.06	6.00 inch – \$108.30

Source: District.

A pumping charge of \$0.12 per Unit is imposed if water is supplied to land over 700 feet above sea level.

## Comparison of Water Service Charges

The table below sets forth a comparison of the District monthly charge for the Water System for a typical single family residential user to those of nearby communities.

**TABLE 11**  
**CAMROSA WATER DISTRICT**  
**COMPARISON OF MONTHLY AREA**  
**WATER SERVICE RESIDENTIAL RATE**

<u>Community</u>	<u>Charge</u>
City of Oxnard	\$76.82
California Water (Newbury Park)	67.21
City of Simi Valley	57.86
City of Thousand Oaks	57.86
Ventura County (Moorpark)	55.67
City of Camarillo	52.02
<b><i>Camrosa Water District</i></b>	<b><i>51.50</i></b>

Source: District. (Based upon an average usage of 18 HCF for a single-family residence.)

## Collection Procedures

The District is divided into five geographic areas for meter reading and billing purposes. The District's water meters are read on or about the 12th day of each month. In 2006, the District initiated an Automated Meter Reading (AMR) System. As of December 2011, approximately 5,300 of the District's 7,912 active potable water meters have been automated with radio-read meters to facilitate meter reading and improve customer service. The District utilizes a meter reading service provider for the remaining touch-read meters that have not been retrofitted. Bills are mailed on or about the 25th day of each month. All bills are due and payable upon receipt. A customer's account is considered past due 25 days from the closing date of the bill. The customer is notified with a delinquent message in the following month's billing statement.

If no payment is received within 55 days, in addition to subsequent late charges and billing messages, the customer receives written notification in the form of a door hanger, as well as a follow-up phone call, that payment must be received in full within 48 hours to prevent termination of service.

The vast majority of the customers pay within the requested deadline or are set up on stringent payment arrangements. Very few incidents result in actual termination of service, but, in such event, such customers are required to pay their full balance, plus late fees and reconnection charges, in order to reinstate service. If a customer relocates at a time when its account is delinquent, such account is forwarded immediately to collections for recovery.

In the past years, the delinquent rate for active customer accounts has gradually declined from a 6.3% level in 2007 to an approximate current rate of 4.3%.

## Projected Water Deliveries

The District estimates that deliveries of water for the current and next four Fiscal Years will be as set forth in the following table:

**TABLE 12**  
**CAMROSA WATER DISTRICT**  
**PROJECTED WATER DEMAND/SOURCES**  
**(Fiscal Years 2012 through 2016)**  
**(acre-feet)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Total Projected Demand</b>	<b>16,710</b>	<b>17,278</b>	<b>17,866</b>	<b>18,453</b>	<b>18,632</b>
<b>Sources of Supply Groundwater</b>					
Tierra Rejada Basin	928	928	928	928	928
Santa Rosa Basin	3,530	3,530	3,530	3,530	3,530
Pleasant Valley Basin	800	800	800	860	860
Perched Aquifer <sup>(1)</sup>	<u>0</u>	<u>1,000</u>	<u>1,000</u>	<u>1,120</u>	<u>1,120</u>
<b>Total Groundwater</b>	<b>5,258</b>	<b>6,258</b>	<b>6,258</b>	<b>6,438</b>	<b>6,438</b>
<b>Imported Water</b>					
Calleguas Municipal Water District	<u>9,018</u>	<u>9,018</u>	<u>9,018</u>	<u>9,018</u>	<u>9,018</u>
<b>Total Imported Water</b>	<b>9,018</b>	<b>9,018</b>	<b>9,018</b>	<b>9,018</b>	<b>9,018</b>
<b>Non-Potable Irrigation Water</b>					
Conejo Creek/HCWWTP (Surface)	10,667	10,667	10,667	10,667	10,667
Camrosa WRF (Recycled)	1,696	1,696	1,696	1,696	1,696
CamSan WWTP (Recycled)	<u>0</u>	<u>0</u>	<u>0</u>	<u>440</u>	<u>440</u>
<b>Total Non-Potable Water</b>	<b>12,363</b>	<b>12,363</b>	<b>12,363</b>	<b>12,803</b>	<b>12,803</b>
<b>Total Sources of Supply</b>	<b>26,639</b>	<b>27,639</b>	<b>27,639</b>	<b>28,259</b>	<b>28,259</b>
<b>Total Surplus Water Available</b>	<b>9,929</b>	<b>10,361</b>	<b>9,773</b>	<b>9,806</b>	<b>9,627</b>

(1) The RMWTP, a groundwater brackish desalter, located in the Perched Aquifer, will begin providing additional local groundwater supply in Fiscal Year 2012-13. The RMWTP will contribute up to 1,120 AF/Y of potable water to the potable water distribution system.

Source: District.

### Water System Capital Improvements

The District annually adopts capital improvement and replacement projects as part of the budget process for required infrastructure maintenance and capital improvements needed to expand system capacity and accommodate growth. The FMP addresses the long-term quality and reliability of the District's water and wastewater services and includes a guideline for related capital projects. The following table describes the costs for the District's proposed capital projects for the Water System for Fiscal Years 2012 through 2016.

**TABLE 13**  
**CAMROSA WATER DISTRICT**  
**PROPOSED CAPITAL PROJECTS – WATER SYSTEM**  
**(By Funding Source - Fiscal Years 2012 through 2016)**

	<u>2012</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	<u>(Budgeted)</u>	<u>(Budgeted</u>					
		<u>Mid-Year)</u>					
Cash Funded	\$484,600	\$ 100,000	\$ 765,054	\$1,289,295	\$1,515,435	\$1,492,121	\$ 5,646,505
Bonds - Water	<u>0</u>	<u>1,300,000</u>	<u>5,208,050</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,508,050</u>
<b>Total by Funding Source</b>	<b>\$484,600</b>	<b>\$1,400,000</b>	<b>\$5,973,104</b>	<b>\$1,289,295</b>	<b>\$1,515,435</b>	<b>\$1,492,121</b>	<b>\$12,154,555</b>

Source: District.

## Water System Financial Information

**Financial Statements.** A copy of the most recent audited financial statements of the District prepared by Poindexter and Company, Ventura, California (the “Auditor”), is included as Appendix B hereto (the “Financial Statements”). The Financial Statements have been prepared on a combined basis and include revenues received from the Water System and the Wastewater System.

The operating results summarized under the caption “Historic Operating Results and Debt Service Coverage” below are derived from such Financial Statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such Financial Statements, including the notes thereto. The District has allocated certain of its revenues and operation and maintenance costs between the Water System and the Wastewater System in preparing such summary operating results. Such allocation has not been audited by the Auditor.

**Historic Operating Results and Debt Service Coverage.** The following table is a summary of operating results of the Water System of the District for Fiscal Years 2007 through 2011. Such results have been derived from the Financial Statements but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Auditor.

**TABLE 14**  
**CAMROSA WATER DISTRICT**  
**WATER SYSTEM**  
**HISTORIC OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**(Fiscal Year Ending June 30)**  
**(Unaudited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>					
Potable Water Sales	\$ 7,470,168	\$ 7,801,045	\$ 7,697,867	\$ 7,983,466	\$ 8,239,270
Non-Potable Water Sales	1,346,937	1,321,760	1,724,463	1,889,268	1,875,816
Meter Sales	898,717	984,844	1,378,647	1,628,874	1,628,392
Other Revenue	798,969	578,200	611,042	624,386	698,156
Interest Income	348,842	295,379	153,811	82,466	91,955
Connection Fees	66,350	40,400	24,000	121,000	17,150
<b>Total Revenues</b>	<b>\$10,929,983</b>	<b>\$11,021,628</b>	<b>\$11,589,830</b>	<b>\$12,329,460</b>	<b>\$12,550,739</b>
<b>Expenses</b>					
Water Purchases (Pass-Through)	\$6,470,462	\$ 7,038,467	\$6,455,776	\$6,429,288	\$ 6,595,635
Salaries	1,475,335	1,419,078	1,503,204	1,587,323	1,697,626
Contract and Support Services	686,491	771,806	829,945	894,782	1,043,007
Supplies	116,858	131,962	127,970	110,261	112,438
Utilities	1,132,468	964,999	958,159	932,489	948,124
<b>Total Expenses</b>	<b>\$9,881,614</b>	<b>\$10,326,312</b>	<b>\$9,875,054</b>	<b>\$9,954,143</b>	<b>\$10,396,830</b>
<b>Net Revenues</b>	<b>\$1,048,369</b>	<b>\$695,316</b>	<b>\$1,714,776</b>	<b>\$2,375,317</b>	<b>\$2,112,079</b>
Liquidation of Rate Stabilization Fund	--	\$197,959	--	--	--
Net Water Revenues	\$1,048,369	\$893,275	\$1,714,776	\$2,375,317	\$2,153,909
2001 Water Installment Payments	\$827,638	\$842,941	\$835,073	\$834,483	\$846,248
Net Water Revenues (After Water Installment Payments)	\$220,731	\$50,334	\$879,703	\$1,540,834	\$1,307,661
Water Debt Service Coverage	1.27	1.06	2.05	2.85	2.50

Source: District.

**Projected Operating Results and Debt Service Coverage.** The District’s estimated projected operating results for the Water System for the Fiscal Years ending June 30, 2012, through June 30, 2016, are set forth in the following table, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District’s estimate of projected financial results based

upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. In addition, the District has solicited proposals for a comprehensive water and wastewater rate study. Based upon the results of that study, future water rates may vary from the rates assumed in the table below. See " – Water System Rates and Charges" above.

**TABLE 15**  
**CAMROSA WATER DISTRICT**  
**WATER SYSTEM**  
**PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**(Fiscal Year Ending June 30)**

	2012 <sup>(2)</sup>	2013 <sup>(3)</sup>	2014	2015 <sup>(4)</sup>	2016
<b>Revenues</b>					
Potable Water Sales (Pass-through)	\$10,427,145	\$10,948,502	\$10,948,502	\$11,441,185	\$11,441,185
Non-Potable Water Sales	2,628,412	2,628,412	2,628,412	2,628,412	2,628,412
Meter Sales	1,626,200	1,626,200	1,626,200	1,626,200	1,626,200
Other Revenue	553,000	553,000	553,000	553,000	553,000
Interest Income	68,250	68,250	68,250	68,250	68,250
Connection Fees <sup>(1)</sup>	--	--	--	--	--
<b>Total Revenues</b>	<b>\$15,303,007</b>	<b>\$15,824,364</b>	<b>\$15,824,364</b>	<b>\$16,317,047</b>	<b>\$16,317,047</b>
<b>Expenses</b>					
Water Purchases (Pass-through)	\$8,872,040	\$8,872,040	\$8,872,040	\$8,872,040	\$8,872,040
Salaries (2.5%)	1,857,655	1,904,096	1,951,699	2,000,491	2,050,503
Contracts and Support Services (2%)	1,365,431	1,392,740	1,420,594	1,449,006	1,477,986
Supplies (2%)	141,848	144,685	147,579	150,530	153,541
Utilities (3.5%)	1,078,271	1,116,010	1,155,071	1,195,498	1,237,340
<b>Total Expenses</b>	<b>\$13,315,245</b>	<b>\$13,429,571</b>	<b>\$13,546,983</b>	<b>\$13,667,566</b>	<b>\$13,791,410</b>
<b>Net Revenues</b>	<b>\$1,987,762</b>	<b>\$2,394,793</b>	<b>\$2,277,382</b>	<b>\$2,649,481</b>	<b>\$2,525,637</b>
Net Water Revenues	\$1,987,762	\$2,394,793	\$2,277,382	\$2,649,481	\$2,525,637
2011 Water Installment Payments	\$76,434	\$547,725	\$550,075	\$547,125	\$549,025
2001 Water Installment Payments	\$852,420	--	--	--	--
2012 Water Installment Payments	--	\$679,568	\$667,700	\$677,300	\$676,500
Net Water Revenues (After Water Installment Payments)	\$1,058,809	\$1,167,500	\$1,059,607	\$1,425,056	\$1,300,112
Water Debt Service Coverage	2.14	1.95	1.87	2.16	2.06

(1) Water Connection Fees are not included in the projected revenues as a result of the slowing of housing development within the District due to the current economic downturn. Although applications for several new developments are being evaluated, such developments are likely not to be approved until the local economy improves.

(2) Budgeted.

(3) Includes an assumed increase in water rates of 5%, which increase is subject to approval by the District following a required public hearing.

(4) Includes an assumed increase in water rates of 4.5%, which increase is subject to approval by the District following a required public hearing.

Source: District (except for the information in the rows entitled "2012 Water Installment Payments," "Net Water Revenues (After Water Installment Payments)," and "Water Debt Service Coverage," which information has been provided by the Underwriter).

## Current Water System Improvements

The District is currently developing a new FMP, which will guide the District's decision-making through 2030. The FMP focuses on improving system reliability in the event of emergency or drought and maintaining the highest possible water quality, while keeping rates affordable to the consumer. The District's primary means of improving reliability and self-reliance is reducing dependence on imported SWP water. The District plans to accomplish such reduction by developing resources that are currently unused and by expanding the non-potable water distribution system. A number of the projects outlined in the FMP are firm commitments to infrastructure improvements, while others are being evaluated further to determine their viability.

**Round Mountain Water Treatment Plant.** The RMWTP, a brackish groundwater desalination facility, is currently being designed, and construction of the RMWTP is scheduled to commence during the summer of 2012. The RMWTP will be supplied by a well (the “University Well”) under a 30-year renewable lease from CSUCI. The University Well has already been refurbished and a yield analysis has been performed. This project is being undertaken to renew historical pumping from the largely abandoned Perched Aquifer near CSUCI, which contains brackish groundwater that is unusable for any beneficial purpose without treatment. The RMWTP is being designed to produce one million gallons of potable water each day from water pumped from the University Well.

The RMWTP will contribute up to 1,120 AF/Y of potable water to the potable water distribution system. This new source of potable water will provide redundancy to the CSUCI campus, as well as a new source of local supply to other areas in the District’s pressure Zone 1. The concentrated brine stream produced by the RMWTP will be disposed of through the Salinity Management Pipeline (“SMP”) being constructed by the Calleguas Municipal Water District (“Calleguas”). The RMWTP will be the first desalination facility in the Calleguas Creek Watershed to discharge into the SMP and will continue to be one of the principal contributors to the SMP in the future. Operating at full capacity, the RMWTP will remove over 18,000 pounds of salts per day (more than 3,000 tons per year) from the Calleguas Creek Watershed. The District has applied for grant funding under California Proposition 84 and anticipates entering into a grant agreement in March 2012. The grant will provide \$2.3 million of the estimated \$6.2 million cost of the RMWTP project. Proceeds of the 2011A Bonds are currently expected to pay for the entire cost of construction of the RMWTP. In the event that the District receives grant funding, a portion of such bond proceeds will instead be allocated to other projects outlined in the FMP. The RMWTP is expected to begin production by the end of Fiscal Year 2013-14.

**Reservoir Seismic Retrofit and Rehabilitation.** Maintaining the good condition and repair of reservoirs is integral to the overall function and efficiency of the District’s potable water distribution system. Decay and deterioration of the interior coating and access orifices of reservoirs can lead to degradation in water quality. Seismic stability of reservoir foundations and their physical apparatus are integral to the overall stability and functionality of the system. The maintenance and rehabilitation of reservoir sites helps guard against unnecessary expenditures and the intrusion of contaminants into the potable water distribution system.

The District has completed an evaluation of its reservoirs and prioritized work to rehabilitate and seismically upgrade all of its older facilities. Costs to rehabilitate the reservoir and reservoir site were estimated by District engineers on the basis of a recent in-tank inspection provided by Aquatics Inspections and on estimates of needed seismic improvements prepared by the consulting firm Perliter and Ingalsbe.

**Rehabilitate and Interconnect Penny Well.** As part of its strategy to reduce SWP water imports, the District plans to rehabilitate and interconnect the Penny Well, a 215 gallon-per-minute groundwater well in the Santa Rosa Groundwater Basin. Historically, the Penny Well was used as a potable water supply and the well is listed as a standby well in the potable distribution system. The winter storms of 2005 washed out the pipeline and power lines leading to the Penny Well, and it has not been used since. Depending on its quality, the water pumped from by the Penny Well may be returned to use in the potable water distribution system or may be used to augment the District’s non-potable water distribution system. In either case, the Penny Well will reduce imported water demand. It is expected that the District will return the Penny Well to production by the end of Fiscal Year 2012-13.

**Non-Potable Water System Expansion.** The development and growth of the District’s non-potable water distribution system over the last decade has dramatically reduced dependence on imported SWP water to satisfy the significant irrigation demand within the District’s service area. A portion of the

proceeds of the 2011A Bonds is expected to be used to expand the District's non-potable water system, as described below. The District may also determine to utilize bond proceeds to finance the construction of other projects in addition to or in place of the projects described below.

The District uses approximately half the non-potable surface water resources currently available from the Conejo Creek. The remainder of this supply is the most immediately available source of non-potable water with which to offset potable water use within the District. Applying non-potable, rather than potable, water resources to meet irrigation demand reduces the District's dependence on imported SWP water and provides District customers with irrigation water at more affordable rates. In order to deliver non-potable surface water to additional customers, the current non-potable distribution system must be expanded. The FMP describes several possible expansion projects. While the District has not yet determined which stages of the expansion will be undertaken first, it has identified two major expansion opportunities. The first is the eastward expansion of the non-potable water distribution system into the Santa Rosa Valley. This expansion would proceed in stages, installing a large "backbone" segment by segment. Storage and pumping capacity may have to be increased if the project is extended eastward. Depending on the scale of the expansion, this project could include the conversion of existing potable reservoirs and pump stations to non-potable uses, the construction of new tanks and pump stations, or both.

The second opportunity to expand the non-potable distribution system is located in the northwestern portion of the District, in the direction of, and including, St. John's Seminary. A large-lot housing tract in that area is already dual-plumbed for non-potable irrigation service, but does not currently have the facilities necessary to receive such water. Two other large-lot housing developments are proposed for this area, which, under District policy, are required to be dual-plumbed. Due to the elevation and distance from the current non-potable distribution system, new storage and pump stations could be built to accommodate service in this area. The eastern portion of the pipeline that would carry non-potable water to the expansion area would pass through a greenbelt that is currently irrigated with a combination of potable water and well water, portions of which could be transferred to the non-potable distribution system to further reduce SWP imports.

In addition to Conejo Creek diversions, additional volumes of non-potable water could be made available from various other sources, including local transfers, increased groundwater pumping, and new inter-agency agreements. Such opportunities as denitrification and/or desalination of local groundwater and the recharge of local groundwater basins with surface water supplies are currently being investigated by the District.

## **THE WASTEWATER SYSTEM**

### **General**

The District currently provides wastewater service to approximately 8,698 connections. Apart from a small number of houses on Read Road in the eastern end of the District, the District collects sewage waste primarily from the Mission Oaks planning area, the County-owned parcels along Lewis Road near CSUCI, and from CSUCI campus property. Service is primarily to residential customers, although a growing number of commercial customers receive service, as well. Wastewater service is also provided to Adolfo Camarillo High School and other local schools. The District's largest wastewater customer is Leisure Village, a master-metered residential community. Four collection mains transmit sewage from the Mission Oaks service area to the main interceptor that runs along the Conejo Creek. Five lift stations are used in areas where sewage will not flow naturally by gravity to the main interceptor. The fifth lift station, near Read Road in the eastern part of the District, pumps sewage up to the City of Thousand Oaks collection system.

Except for that collected around Read Road, all sewage flows to the CWRF, located near the CSUCI campus. The CWRF, completed in 1997, is an extended-aeration/activated-sludge treatment facility that completely replaced the existing facility purchased from the Camarillo State Hospital in 1978. See “ – Treatment Capacity” below.

### **Residential and Commercial Service**

Residential and commercial wastewater service is provided to all water customers located within City of Camarillo limits north of US Highway 101. No service is provided to customers who do not also receive water service. Approximately 1.4 MGD flows from this service area. The District controls the quality of the influent by resolution restricting the dumping of non-sewage into the lines.

### **California State University Channel Island**

CSUCI is provided service under an agreement with the District. Wastewater service is provided to the campus site at the prevailing rate per equivalent dwelling unit (“EDU”) as established in the District schedule of rates and charges. CSUCI is entitled to a reserved capacity of 700,000 gallons per day of wastewater flow. The average daily flow as of June 2011 was approximately 118,000 gallons per day.

### **Treatment Capacity**

The CWRF is capable of treating an average daily flow of 1.5 MGD or a peak flow of approximately 2 MGD. The District holds 0.45 MGD reserve capacity in the Camarillo Sanitation Plant by formal agreement. Sewage can be diverted to the Camarillo Sanitation District by a diversion structure placed within a shared wastewater main running from the US Highway 101 to the Camarillo Sanitation Plant. In total, the District can treat an average daily flow of 1.95 MGD, or a peak flow of 2.40 MGD.

Projected future connections to the District’s facilities over the next five years will not increase flow beyond the ability of the District to treat sewage. However, beyond that time frame, as the District approaches full build-out, sewage flows will exceed the current capacity of the CWRF. In addition, the 0.45 MGD reserve capacity in the Camarillo Sanitation Plant will expire July 1, 2015, compelling the District to complete the upgrade of all CWRF facilities to accommodate future growth. The District’s FMP considers the expansion of the CWRF within the next five years in anticipation of the re-rating of the plant to 2.25 MGD. Several components of the CWRF have already been upgraded, the funding for which was a combination of developer’s fees held in reserve and CSUCI contributions. The addition of a chlorine contact basin and associated equipment will complete the upgrade.

### **Wastewater Service Charges**

The District does not separate its wastewater service customers into classes. Instead, wastewater service is charged based upon EDUs. EDUs are determined by the number of plumbing fixtures installed at the customer site. Generally, a detached, single-family dwelling is considered a single dwelling unit. The current monthly wastewater service charge per dwelling unit is \$27.35 effective July 2011.

### **Historic Wastewater System Connections**

The following table presents a summary of service connections to the Wastewater System for the five most recent Fiscal Years.

**TABLE 16**  
**CAMROSA WATER DISTRICT**  
**HISTORICAL WASTEWATER CONNECTIONS**

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Number of</u> <u>Connections</u>	<u>Percentage Increase</u>
2007	9,375	1.03%
2008	9,368	-0.01
2009	9,203	-0.02
2010	8,722	-0.05
2011	8,698	-0.38

Source: District.

Beginning in 2008 through 2011, the District recognized significant declines in EDUs, which declines are directly related to the effort made by CSUCI to upgrade the aging sewer system on campus to minimize infiltration and otherwise reduce wastewater flows. With these efforts completed, it is expected that moderate growth in sewer flows will continue on campus during the next 20 years, until the campus reaches full build-out.

**Historic Wastewater System Usage**

The following table summarizes the volume of wastewater treated by the District for the five most recent Fiscal Years. Throughout that period, the District has averaged 1.38 MGD daily average flow treated.

**TABLE 17**  
**CAMROSA WATER DISTRICT**  
**HISTORICAL WASTEWATER SYSTEM USAGE**  
**(in MGD)**

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Daily Average (MGD) Flow</u>
2007	1.45
2008	1.40
2009	1.35
2010	1.35
2011	1.36

Source: District.

**Largest Wastewater System Users**

The following table sets forth the 10 largest users of the Wastewater System as of June 2011 as determined by EDUs.

**TABLE 18**  
**CAMROSA WATER DISTRICT**  
**TEN LARGEST WASTEWATER SYSTEM USERS**  
**(As of June 2011)**

<u>Name</u>	<u>EDUs</u>	<u>Annual Revenue</u> <sup>(1)</sup>
Leisure Village	2,149	\$ 673,067
CSUCI	697	218,300
Rancho Adolfo Mobile Home Estates	255	79,866
Corte Madera Apartments	160	50,425
Essex Camino Inc.	160	50,425
Adolfo Camarillo High School	59	18,479
Emeritus at Camarillo	56	17,588
Kilroy Realty	47	14,720
Marriott	42	13,154
Pleasant Valley School	38	11,902
<b>Total EDUs/Revenue</b>	<b>3,663</b>	<b>\$1,147,926</b>

(1) Total may not add due to rounding.  
Source: District.

These 10 largest customers of the Wastewater System accounted for approximately 42% of wastewater service revenues in Fiscal Year 2010-11. Leisure Village, the largest customer, represents approximately 25% of the District's wastewater service revenues.

**Projected Wastewater Service Connections**

The District currently estimates that service connections to the Wastewater System will increase by an average of 1.0% per year for the current and next five Fiscal Years. Such estimate is based on the District's expectation that the St. John's Seminary property will be developed with approximately 250 residential units in Fiscal Year 2014-15 and that CSUCI will continue to implement its campus master plan. The number of expected connections are summarized in the following table.

**TABLE 19**  
**CAMROSA WATER DISTRICT**  
**PROJECTED WASTEWATER SERVICE CONNECTIONS**

<u>Fiscal Year Ending June 30</u>	<u>Service Connections</u>
2012	8,785
2013	8,873
2014	8,962
2015	9,301
2016	9,394

Source: District.

**Comparison of Wastewater Service Charges**

The table below sets forth a comparison of the District's current monthly rates for the Wastewater System for a single family used to those of nearby communities.

**TABLE 20**  
**CAMROSA WATER DISTRICT**  
**COMPARISON OF AREA WASTEWATER RATES**

<u>Community</u>	<u>Monthly Rate</u>
City of Fillmore	\$82.00
City of Santa Paula	\$59.39
City of Ojai	\$52.07
City of Ventura*	\$36.63
City of Camarillo	\$31.93
<b>Camrosa Water District</b>	<b>\$27.35</b>
City of Simi Valley	\$27.08
City of Thousand Oaks	\$25.45
City of Moorpark	\$24.00

\* Based on 18 HCF water usage.  
Source: District.

**Collection Procedures**

The District collects wastewater service charges and delinquencies in the same manner as water service charges are collected. See “THE WATER SYSTEM – Collection Procedures.”

**Wastewater System Capital Improvements**

The District annually adopts capital improvement and replacement projects as part of the budget process for required infrastructure maintenance and capital improvements needed to expand system capacity and accommodate growth. The FMP addresses the long-term quality and reliability of the District’s water and wastewater services and includes a guideline for related capital projects. The following table describes the costs for the District’s proposed capital projects for the Wastewater System for Fiscal Years 2012 through 2016.

**TABLE 21**  
**CAMROSA WATER DISTRICT**  
**PROPOSED CAPITAL PROJECTS – WASTEWATER SYSTEM**  
**(By Funding Source - Fiscal Years 2012 through 2016)**

	<u>2012</u> <u>(Budgeted)</u>	<u>2012</u> <u>(Budgeted</u> <u>Mid-Year)</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Cash Funded	\$168,400	\$ 0	\$ 766,000	\$110,000	\$110,000	\$190,000	\$1,344,400
Bonds – Wastewater	<u>0</u>	<u>670,000</u>	<u>1,776,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,446,500</u>
<b>Total by Funding Source</b>	<b>\$168,400</b>	<b>\$670,000</b>	<b>\$2,542,500</b>	<b>\$110,000</b>	<b>\$110,000</b>	<b>\$190,000</b>	<b>\$3,790,900</b>

Source: District.

**Wastewater System Financial Information**

**Financial Statements.** A copy of the Financial Statements is included as Appendix B hereto. The Financial Statements have been prepared on a combined basis and include revenues received from the Water System and the Wastewater System.

The summary operating results contained under the caption “Historic Operating Results and Debt Service Coverage” below are derived from the Financial Statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such Financial Statements, including the notes thereto. The District has allocated certain of its revenues and operation and maintenance costs between the Water System and the Wastewater System in preparing such summary operating results. Such allocation has not been audited by the Auditor.

**Historic Operating Results and Debt Service Coverage.** The following table is a summary of operating results of the Wastewater System of the District for Fiscal Years 2007 through 2011. These results have been derived from the Financial Statements but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Auditor.

**TABLE 22**  
**CAMROSA WATER DISTRICT**  
**WASTEWATER SYSTEM**  
**HISTORIC OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**(Fiscal Year Ending June 30)**  
**(Unaudited)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>					
Wastewater Service	\$2,095,869	\$2,234,752	\$2,313,136	\$2,480,174	\$2,715,834
Recycled Water Sales	97,402	64,316	118,238	139,490	157,244
Other Revenue	1,307	7,731	15,018	52,679	23,398
Interest Income	30,777	43,349	73,270	44,405	12,955
Connection Fees	16,000	542,752	179,960	--	75,588
<b>Total Revenues</b>	<b>\$2,241,355</b>	<b>\$2,892,900</b>	<b>\$2,699,622</b>	<b>\$2,716,748</b>	<b>\$2,985,019</b>
<b>Expenses</b>					
Salaries	\$ 794,411	\$ 764,119	\$ 809,418	\$ 854,712	\$ 914,106
Contracts and Support Services	517,175	558,261	564,373	674,530	750,577
Supplies	139,794	152,382	109,626	128,841	110,372
Utilities	145,297	146,170	129,104	142,580	155,253
<b>Total Expenses</b>	<b>\$1,596,677</b>	<b>\$1,620,932</b>	<b>\$1,612,521</b>	<b>\$1,800,663</b>	<b>\$1,930,308</b>
<b>Net Revenues</b>	<b>\$644,678</b>	<b>\$1,271,968</b>	<b>\$1,087,101</b>	<b>\$916,085</b>	<b>\$1,054,711</b>
Net Wastewater Revenues	\$644,678	\$1,271,968	\$1,087,101	\$916,085	\$1,054,711
2001 Wastewater Installment Payments	\$535,852	\$545,759	\$540,665	\$540,284	\$547,900
Net Wastewater Revenues (After Wastewater Installment Payments)	\$108,826	\$726,209	\$546,436	\$375,801	\$506,811
Wastewater Debt Service Coverage	1.20	2.33	2.01	1.70	1.93

Source: District.

**Projected Operating Results and Debt Service Coverage.** The District’s estimated projected operating results for the Wastewater System for the Fiscal Years ending June 30, 2012, through June 30, 2016, are set forth in the following table, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the District’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. In addition, the District has solicited proposals for a comprehensive water and wastewater rate study. Based upon the results of that study, future wastewater rates may vary from the rates assumed in the table below. See “THE WATER SYSTEM – Water System Rates and Charges.”

**TABLE 23**  
**CAMROSA WATER DISTRICT**  
**WASTEWATER SYSTEM**  
**PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE**  
**(Fiscal Year Ending June 30)**

	2012 <sup>(2)</sup>	2013 <sup>(3)</sup>	2014	2015	2016
<b>Revenues</b>					
Wastewater Service	\$2,861,904	\$3,004,999	\$3,155,249	\$3,313,012	\$3,313,012
Recycled Water Sales	153,918	153,918	153,918	153,918	153,918
Other Revenue	35,000	35,000	35,000	35,000	35,000
Interest Income	36,750	36,750	36,750	36,750	36,750
Connection Fees <sup>(1)</sup>	--	--	--	--	--
<b>Total Revenues</b>	<b>\$3,087,572</b>	<b>\$3,230,667</b>	<b>\$3,380,917</b>	<b>\$3,538,680</b>	<b>\$3,538,680</b>
<b>Expenses</b>					
Salaries (2.5%)	\$1,000,276	\$1,025,283	\$1,050,915	\$1,077,188	\$1,104,118
Contracts and Support Services (2%)	857,842	874,999	892,499	910,349	928,556
Supplies (2%)	153,903	156,981	160,121	163,323	166,589
Utilities	169,275	174,353	179,584	184,971	190,520
<b>Total Expenses</b>	<b>\$2,181,296</b>	<b>\$2,231,616</b>	<b>\$2,283,118</b>	<b>\$2,335,831</b>	<b>\$2,389,783</b>
<b>Net Revenues</b>	<b>\$906,276</b>	<b>\$999,051</b>	<b>\$1,097,799</b>	<b>\$1,202,849</b>	<b>\$1,148,897</b>
Net Wastewater Revenues	\$906,276	\$999,051	\$1,097,799	\$1,202,849	\$1,148,897
2011 Wastewater Installment Payments	\$28,304	\$208,400	\$205,400	\$207,400	\$204,250
2001 Wastewater Installment Payments	\$555,143	--	--	--	--
2012 Wastewater Installment Payments	--	\$440,169	\$435,400	\$438,600	\$436,600
Net Wastewater Revenues (After Wastewater Installment Payments)	\$322,830	\$350,482	\$456,999	\$556,849	\$508,047
Wastewater Debt Service Coverage	1.55	1.54	1.71	1.86	1.79

(1) Wastewater Connection Fees are not included in the projected revenues as a result of the slowing of housing development within the District due to the current economic downturn. Although applications for several new developments are being evaluated, such developments are likely not to be approved until the local economy improves.

(2) Budgeted.

(3) Includes an assumed increase in wastewater rates of 5% for three years, which increase is subject to approval by the District following a required public hearing.

Source: District (except for the information in the rows entitled "2012 Wastewater Installment Payments," "Net Wastewater Revenues (After Wastewater Installment Payments)," and "Wastewater Debt Service Coverage," which information has been provided by the Underwriter).

### **Current Wastewater System Improvements**

Due to the population growth within the portion of the District's service area that receives wastewater service from the District, the District's wastewater system must be expanded. The Chlorination Facility Expansion (as described below) is designed to improve the efficiency and increase plant capacity of the wastewater system.

**Expand Chlorination Facility.** The Engineering Compliance Report to re-rate the CWRF from 1.5 million gallons per day ("MGD") to 2.25 MGD identified the need to increase the disinfection capacity available at the plant from its current 1.5 MGD capacity. The District commissioned Carollo Engineers to prepare a Disinfection Study to examine alternatives for expansion of the disinfection capacity of the CWRF. Based upon cost considerations, expansion of the existing chlorine contact basins was selected as the superior to the use of alternate technology. A new, 2.2 MGD chlorine contact basin ("CCB") will be constructed parallel to the existing CCBs.

**Wastewater Facility Improvement and Replacement Projects.** The FMP recommends several projects to improve the existing wastewater treatment processes or replace existing wastewater facilities. The District may also determine to utilize proceeds of the 2011A Bonds to finance the construction of projects in addition to the expansion of the chlorination facility projects described above. The FMP identifies installation of a degritter and bar screen replacement to improve the existing treatment process and maximize the existing plant capacity. The wastewater collection system is relatively new and in good

condition; however, the FMP identifies the need for sewer pipeline replacement and collection line repairs in three locations to ensure system integrity and avoid future problems.

## **RISK FACTORS**

*Investment in the Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the Bonds, for investment. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

### **Bonds are Limited Obligations**

The Bonds are payable solely from (i) the Water Installment Sale Payments, which are payable solely from Net Water Revenues, (ii) the Wastewater Installment Sale Payments, which are payable solely from Net Wastewater Revenues, and (iii) amounts held in certain funds and accounts established under the Trust Agreement. Consequently, the payment of principal of and interest on the Bonds will be dependent upon the availability and sufficiency of such Net Water Revenues and Net Wastewater Revenues. Neither the faith and credit of the Authority, the District, the State, or any political subdivision of the State, nor the taxing power of the District, the State, or any political subdivision of the State, is pledged to the payment of the Bonds. The Authority has no taxing power. The obligation of the District to make 2012 Installment Sale Payments under the Installment Sale Agreements, as applicable, does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Bonds nor the Installment Payments constitute a debt or indebtedness of the Authority, the District, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

### **Systems Demand**

There can be no assurance that the local demand for the services provided by the Systems will be maintained at levels described in this Official Statement. It is possible for the demand for water services or wastewater services to decline over the term of the Bonds. A significant decline in demand might create a situation in which the District could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the District's ability to make the 2012 Installment Sale Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the Bonds.

### **Increased Regulations**

The adoption by federal or State agencies of more stringent regulations could adversely affect Net Water Revenues or Net Wastewater Revenues. A significant change in standards for water storage and delivery or wastewater disposition imposed by law or regulation might cause the District to incur greater expenses of operation, thus creating a temporary or permanent inability to support the 2012 Installment Sale Payments due under the Installment Sale Agreements, as applicable, which could in turn adversely impact the Authority's ability to pay the principal of and interest on the Bonds when due. It is not possible to predict the timing or nature of more stringent operating standards that may be imposed upon the District over the term of the Bonds.

## **Increased System Expenses**

Changes in technology or increases in expenses, such as the cost of energy or chemicals, could reduce Net Water Revenues or Net Wastewater Revenues, which could in turn require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Sale Agreements, as applicable. The District's ability to make its required 2012 Installment Sale Payments may be adversely affected until such time as the District is able to increase rates and charges to pay for such increased costs. See "THE WATER SYSTEM."

## **Acts of Nature; Disasters**

The cost to provide water service and wastewater service to the District's customers depends, in large part, on the supply of water. There are numerous acts of nature or disasters that may adversely affect both the supply of water available to the District and the cost of that water. Droughts are the most obvious example of an act of nature that could greatly increase the costs of supplying water to the District's customers. Storms, fires, and environmental disasters are also examples of events that could impact the supply and cost of water services or the cost of wastewater services, which could reduce Net Water Revenues or Net Wastewater Revenues, as applicable, which could in turn require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreements. The District's ability to make its required 2012 Installment Sale Payments may be adversely affected until such time as the District is able to increase rates and charges to pay for such increased costs.

## **Seismic Activity; Flood Plain; Limited Insurance**

The Installment Sale Agreements do not require the District to maintain earthquake or flood insurance on the Water System or the Wastewater System. The District, along with much of the State of California, shares a history of seismic activity and is thus listed as a "Zone 4" earthquake area in the Uniform Building Code. A Zone 4 designation has the most restrictive design requirements for new construction. The District standards for development, to which the components of the Water System and the Wastewater System were subject, have been designed to reduce the risk to the public and adequately mitigate seismic hazards.

There are no known major faults within the District; however, there are several active faults located within a radius of approximately 50 miles from the District, including the San Andreas Fault and the San Gabriel Fault. Activity along these faults could potentially result in damage to the buildings, roads, bridges, and property within the District in the event of a major earthquake.

If a major earthquake were to occur, it may substantially damage or destroy the Water System or the Wastewater System, or portions thereof. In such a case, under certain circumstances, the Net Water Revenues or the Net Wastewater Revenues could be reduced or eliminated if the District was unable to provide Water Services or Wastewater Services to its customers, or if large amounts of Water Revenues or Wastewater Revenues were required to be applied to make extensive repairs to the Water System or Wastewater System, as applicable. Such a reduction or elimination of Net Water Revenues or Net Wastewater Revenues, as applicable, could impair the ability of the District to make the applicable 2012 Installment Sale Payments, which in turn would impair the ability of the Authority to make payments of principal of and interest on the Bonds when due.

The chance that the occurrence of severe seismic activity in the area of the Systems could result in substantial damage and interference with the District's right to use all or a portion of the Systems, and thereby result in a reduction or elimination of Net Water Revenues or Net Wastewater Revenues, is mitigated by the District's standards for development.

Some of the components of the Systems are located in a flood insurance rate zone designated by the Federal Emergency Management Agency (“FEMA”) as “Zone B.” According to FEMA, Zones B, C, and X refer to flood insurance rate zones that are not within the 100-year floodplain and are therefore not considered to pose a flood hazard. The term “100-year flood” refers to the flood elevation that has a one percent chance of being equaled or exceeded in any given year. A base flood may also be referred to as a “100-year storm” and the area inundated during the base flood is sometimes called the “100-year floodplain.” The 100-year flood, which is the standard used by most federal and state agencies, is used by the National Flood Insurance Program as the standard for floodplain management and to determine the need for flood insurance.

### **Additional Parity Obligations**

The Water Installment Sale Payments are payable from Net Water Revenues on an equal basis with the Series 2011A Bonds and any other Water Parity Bonds or Water Contracts that may be issued or executed in the future. As the payments are made on a parity, insufficient Net Water Revenues may cause a deficit in the ability of the District to pay the appropriate amounts due on each of the Water Installment Sale Payments, the Series 2011A Bonds, and any other Water Parity Bonds or Water Contracts that may be issued or executed in the future. In the event of such a deficit, the District is obligated to transfer moneys in the Utility Revenue Fund to fund its payment obligations on a pro rata basis, without discrimination or preference. No priority is allotted to the Water Installment Sale Payments and, consequently, in the event of such a deficit, the District would not have sufficient Net Water Revenues to pay the Water Installment Sale Payments in full and the Authority may have to make draws on the Reserve Account established under the Trust Agreement.

The Wastewater Installment Sale Payments are payable from Net Wastewater Revenues on an equal basis with the Series 2011A Bonds and any other Wastewater Parity Bonds or Wastewater Contracts that may be issued or executed in the future. As the payments are made on a parity, insufficient Net Wastewater Revenues may cause a deficit in the ability of the District to pay the appropriate amounts due on each of the Wastewater Installment Sale Payments, the Series 2011A Bonds, and any other Wastewater Parity Bonds or Wastewater Contracts that may be issued or executed in the future. In the event of such a deficit, the District is obligated to transfer moneys in the Utility Revenue Fund to fund its payment obligations on a pro rata basis, without discrimination or preference. No priority is allotted to the Wastewater Installment Sale Payments and, consequently, in the event of such a deficit, the District would not have sufficient Net Wastewater Revenues to pay the Wastewater Installment Sale Payments in full and the Authority may have to make draws on the Reserve Account established under the Trust Agreement.

### **Limited Recourse on Default**

If the District defaults on its obligation to make any 2012 Installment Sale Payments, the Trustee, as assignee of the Authority, has the right to accelerate the total unpaid principal amount of the applicable 2012 Installment Sale Payments. However, in the event of a default and such acceleration, there can be no assurance that the District will have sufficient Net Water Revenues or Net Wastewater Revenues, as applicable, to pay the accelerated 2012 Installment Sale Payments.

### **Limitations on Available Remedies**

The enforceability of the obligations of the District and the rights and remedies of the Holders of the Bonds may become subject to the following: the federal 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 equitable principles that 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 servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Holders 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.

### **Absence of Market for the Bonds**

There can be no assurance that there will ever be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for such Bonds, depending upon prevailing market conditions and the financial condition or market position of firms who may make the secondary market.

### **Constitutional Limitations**

California law imposes various taxing, revenue, and appropriations limitations on public agencies such as the District. See “CONSTITUTIONAL PROVISIONS AFFECTING SYSTEM REVENUES AND EXPENDITURES” for a discussion of these limitations.

### **Loss of Tax Exemption on Bonds**

As discussed under the caption “TAX MATTERS,” interest on the Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District or the Authority in violation of their respective covenants in the Trust Agreement and the Installment Sale Agreements.

### **Economic, Political, Social, and Environmental Conditions**

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

## **CONSTITUTIONAL PROVISIONS AFFECTING SYSTEM REVENUES AND EXPENDITURES**

### **California Constitution Article XIII B – Limitations on Appropriations**

On November 6, 1979, State voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution (“Article XIII B”). In June 1990, voters amended Article XIII B through their approval of Proposition 111. Article XIII B limits the annual appropriations of the State and of any city, county, school district, authority, or other political subdivision of the State to the level of the appropriations limit for the prior fiscal year, as adjusted annually for changes in the cost of living, population, and cost of services rendered by the governmental entity. The “base year” for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the

governmental entity, or (ii) for emergencies, so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations of an entity of local government subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance, and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues, and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

Certain expenditures are excluded from the appropriations limit, including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates that without discretion require an expenditure for additional services or that unavoidably make the providing of existing services more costly. The District believes that its charges for water service and wastewater service do not exceed the costs it reasonably bears in providing such services and, therefore, are not subject to the limitations of Article XIII B. The District has covenanted in the Installment Sale Agreements that it will, in each year, prescribe rates and charges sufficient to provide for payments of the 2012 Installment Sale Payments, as applicable, and any additional Water Parity Bonds, Water Contracts, Wastewater Parity Bonds, or Wastewater Contracts, as applicable. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant; Collection of Rates and Charges."

### **California Constitution Article XIII C and Article XIII D Limitations**

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the District to levy and collect both existing and future taxes, assessments, fees, and charges. These provisions could adversely affect the financial condition of the District, its ability to comply with its covenants under the Installment Sale Agreements, and/or the Authority's ability to pay principal of or interest on the Bonds. In such event, there can be no assurance that remedies will be available to fully protect the interests of the holders of any of the Bonds. See "RISK FACTORS – Limitations on Available Remedies."

Article XIII D contains several new provisions affecting the ability of local governments to impose or increase "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by ... a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service"; provided, however, that Article XIII D specifically provides that it shall not be construed to "affect existing laws relating to the imposition of fees or charges as a condition of property development." The District believes that its connection fee charges related to the Water System and the

Wastewater System constitute a fee or charge as a condition of property development within the meaning of Article XIID, although no assurance can be given that a court would not determine otherwise. “Property related service” means a public service having a direct relationship to property ownership (which term may include tenancies). All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges that (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire, ambulance, or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Although the District believes that neither its water service charges or wastewater service charges are property related fees or charges within the meaning of Article XIID, the District further believes that its water service charges and wastewater service charges, if determined to be such property related fees or charges, would satisfy all of these requirements. However, in any legal action contesting the validity of a fee or charge, the District will have the burden of proving exemption from or compliance with Article XIID and no assurance can be given that a court would not determine otherwise. Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The District must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the District may not impose or increase the fee or charge. The District is unable to predict whether the imposition or increase of any fee and charge, including any increase in its water service charges or wastewater service charges, will be prevented by such a majority protest.

Moreover, Article XIID also provides that, except for fees or charges for sewer, water, and refuse collection services (or fees for electrical and gas service, which are not treated as property related for purposes of Article XIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two thirds voter approval by the electorate residing in the affected area. The District believes that its water service charges and wastewater service charges are charges for water service and sewer service, as applicable, within the meaning of Article XIID, although no assurance can be given that a court would not determine otherwise.

Article XIID states that, beginning July 1, 1997, all “fees” or “charges” must comply with its provisions. It is unclear how the provisions of Article XIID will be applied to fees or charges established prior to such date. The District does not plan to conduct any new hearings, elections, or other proceedings with respect to any of its existing water-related or wastewater-related fees or charges.

In addition to the provisions described above, Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees, and charges. Consequently, the voters within the District could, by future initiative, repeal, reduce, or prohibit the future imposition or increase of any local tax, assessment, fee, or charge. “Assessment,” “fee,” and “charge” are not defined in Article XIIC and it is unclear whether the definitions of such terms contained in Article XIID (which are generally property-related as described above) apply with respect to Article XIIC. No assurance can be given that the voters within the District will not, in the future, approve initiatives that repeal, reduce, or prohibit the future imposition or increase of assessments, fees, or charges. The District believes that the initiative power cannot be used to alter covenants in the Installment Sale Agreements concerning the imposition of the District’s charges or reduce or repeal such charges to the extent that the District could not meet its obligation to make 2012 Installment Sale Payments, as applicable. In addition to the foregoing, the District’s general financial condition may be affected by other provisions of Article XIIC and Article XIID, including (A) provisions of Article XIIC (i) requiring taxes for general governmental purposes to

be approved by a majority vote and taxes for specific purposes, even if deposited into general fund, to be approved by a two thirds vote, (ii) subjecting all taxes, assessments, fees, and charges to reduction or repeal at any time through the initiative process (as mentioned above), and (iii) provisions of Article XIID that could reduce the ability of the District to fund certain services or programs that it may be required or choose to fund from its general fund, such as provisions (1) adding requirements making it generally more difficult to levy and maintain “assessments,” defined to mean a levy or charge upon real property for a particular and distinct benefit to the property over and above general benefits conveyed to property located in the district or to the public at large, (2) requiring any imposition or increase of property related fees or charges other than for sewer, water, and refuse collection services or fees for electrical or gas service (which are not treated as property related for purposes of Article XIID) to be approved by “majority of the property owners” subject to the fee or charge or, at the option of the local government, two thirds vote of the electorate residing in the affected area.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

### **Future Initiatives**

Articles XIIB, XIIC, and XIID of the Constitution were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting Water System revenues or the District’s ability to generate or expend revenues.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount,

including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

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

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment

of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

### **VERIFICATION**

The Verification Agent, The Arbitrage Group, Inc., will verify the accuracy of the mathematical computations of the adequacy of the funds held by the Escrow Agent to provide for the refunding of the Series 2001 Bonds.

### **RATING**

Standard & Poor’s Ratings Services, a Division of The McGraw Hill Companies (“S&P”), has assigned its municipal bond rating of “A+” to the Bonds. There is no assurance that such rating will be in effect for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds. Such rating reflects only the views of the rating agency and an explanation of the significance of the rating may be obtained only from the rating agency furnishing the same.

### **CONTINUING DISCLOSURE**

The District will covenant in the Continuing Disclosure Agreement to provide certain financial information and operating data relating to the District and notices of certain events listed therein. Such information and notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be provided is set forth in the Continuing Disclosure Agreement, a form of which is attached hereto as Appendix D. This covenant has been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), as amended. The District has not failed in the previous five years to provide any previous continuing disclosure or notices of material events. See “APPENDIX D – Form of Continuing Disclosure Agreement.”

### **UNDERWRITING**

The Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$8,240,323.50 (which represents the aggregate principal amount of the Bonds, less an Underwriter’s discount of \$60,000.00, plus a net original issue premium of \$725,323.50).

The contract of purchase pursuant to which the Bonds are being purchased by the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page of this Official Statement. In addition, the offering prices or yields may be changed from time to time by the Underwriters.

Although the Underwriter expects to maintain a secondary market in the Bonds after the initial offering, no guarantee can be made that such a market will develop or be maintained by the Underwriter or others.

### **LITIGATION**

The District and the Authority will certify, and Hathaway, Perrett, Webster, Powers, Chrisman & Gutierrez, Ventura, California, General Counsel to the District, will render opinions on behalf of the District and the Authority upon the issuance of the Bonds to the effect that, there is no action, suit, or proceeding known to the District or the Authority to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Trust Agreement, or the Installment Sale Agreements, or in any way contesting or affecting the validity of the foregoing or any proceeding of the District or the Authority taken with respect to any of the foregoing or that will materially adversely affect the District's ability to pay 2012 Installment Sale Payments when due.

### **CERTAIN LEGAL MATTERS**

Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, will render an opinion with respect to the Bonds in substantially the form set forth in Appendix C hereto. A copy of such opinion will be furnished to the Underwriter at the time of delivery of the Bonds. Certain legal matters will be passed upon for the District or the Authority by Orrick, Herrington & Sutcliffe LLP, by Hathaway, Perrett, Webster, Powers, Chrisman & Gutierrez, Ventura, California, General Counsel to the District, and by Goodwin Procter LLP, Los Angeles, California, Disclosure Counsel.

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**MISCELLANEOUS**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds and of statutes and documents contained in this Official Statement do not purport to be complete, and reference is made to such statutes and documents for full and complete statements of their provisions.

The preparation and distribution of this Official Statement have been authorized by the Authority and the District.

**CAMROSA WATER DISTRICT FINANCING  
AUTHORITY**

By: /s/ Tony L. Stafford  
Interim Treasurer

**CAMROSA WATER DISTRICT**

By: /s/ Tony L. Stafford  
Interim General Manager

## **APPENDIX A**

### **SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS**

*The following is a summary of certain provisions of the Trust Agreement, the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement. The terms of the two Installment Sale Agreements are substantially similar, but for the specifics as to source of revenues and operations, and this summary describe general terms and System specific dissimilarities where applicable. This summary is not intended to be definitive and is qualified in its entirety by reference to such documents for the complete terms thereof. Copies of such documents are available upon request from the Authority.*

### **DEFINITIONS**

Unless the context otherwise requires, the terms defined in this Appendix A shall for all purposes of the Trust Agreement, and any Supplemental Trust Agreement, the respective Installment Sale Agreement, and any supplement thereto, and of any certificate, opinion, request or other document therein mentioned have the meanings provided below or as otherwise specified in the respective document.

#### *Accountant's Report*

“Accountant’s Report” means a report signed by a District Independent Certified Public Accountant.

#### *Act*

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto.

#### *Acquisition Funds*

“Acquisition Funds” means the Wastewater Acquisition Fund and the Water Acquisition Fund.

#### *Additional Parity Obligations*

“Additional Parity Obligations” means additional Parity Obligations satisfying the conditions set forth in the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations.”

#### *Authority*

“Authority” means the Camrosa Water District Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California and a Joint Exercise of Powers Agreement, dated as of July 1, 2011, between the California Municipal Finance Authority and the District, as supplemented and amended.

#### *Authority Bonds; Series 2012 Authority Bonds*

“Authority Bonds” means all revenue bonds issued by the Authority under and pursuant to the Trust Agreement. “Series 2012 Authority Bonds” means the Series 2012 Bonds issued by the Authority under and pursuant to the Trust Agreement.

#### *Authority Independent Certified Public Accountant*

“Authority Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom --

(i) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority;

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

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

*Average Annual Debt Service*

“Average Annual Debt Service” means an amount equal to the average of the annual Debt Service (a System specific term) for all Fiscal Years commencing with the Fiscal Year in which such calculation is made and terminating with the Fiscal Year in which payments are due under the last outstanding Bonds or the last outstanding Contract, whichever is later.

*Bonds; Series 2012 Bonds; Series 2011A Bonds; Serial Bonds; Term Bonds*

“Bonds” or “Series 2012 Bonds” means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement. “Series 2011A Bonds” means Bonds issued by the Authority on or about October 11, 2011. The term “Serial Bonds” means Bonds for which no sinking fund payments are provided. The term “Term Bonds” means Bonds which are payable on or before their specified maturing dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

*Bond Insurance Policy*

“Bond Insurance Policy” means the municipal bond insurance policy issued by the Bond Insurer, if any, insuring the payment when due of principal of and interest on the Series 2012 Bonds as provided therein.

*Bond Insurer*

“Bond Insurer” means the provider, if any, of a Bond Insurance Policy, or any successor thereto.

*Business Day*

“Business Day” means a day other than: a Saturday or Sunday or a day on which: (i) banks located in the city in which the Principal Corporate Trust Office of the Trustee is located are not required or authorized to remain closed; and (ii) the New York Stock Exchange is not closed.

*Calculation Period*

“Calculation Period” means, with respect to any calculation or special report to be provided pursuant to a respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations,” any twelve consecutive month period within the eighteen consecutive months ending immediately prior to the issuance of the Additional Parity Obligations to which such calculation or special report relates.

*Certificate of the Authority*

“Certificate of the Authority” means an instrument in writing signed by the Chairman or Vice-Chairman of the Authority, or by any other officer of the Authority duly authorized by the Authority for that purpose.

*Certificate of the District*

“Certificate of the District” means an instrument in writing signed by the General Manager or Interim General Manager or authorized designee of the District, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

*Certificates*

“Certificates” means any certificates of participation representing interests in payments to be made by the District executed and delivered by the Trustee under and pursuant to a trust agreement.

*Closing Date*

“Closing Date” means February 28, 2012.

*Code*

“Code” means the Internal Revenue Code of 1986 and the regulations issued thereunder.

*Continuing Disclosure Agreement*

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the District and the Trustee, in its capacity as Trustee and as Dissemination Agent, dated the date of issuance and delivery of the Series 2012 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

*Contracts*

“Contracts” means all installment sale contracts, capital leases or similar obligations of the District, including, without limitation, the respective 2012 Installment Sale Agreement, authorized and executed by the District under and pursuant to applicable law, the interest and principal and prepayment premium, if any, payments under and pursuant to which are payable from Water Revenues or Wastewater Revenues, as applicable, on a parity with the payment of the respective 2012 Installment Sale Payments.

*Date of Operation*

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

*Debt Service*

“Debt Service” is defined separately in each Installment Sale Agreement and means, for any Fiscal Year, the sum of:

- (1) the interest payable during such Fiscal Year on all outstanding Parity Obligations (a System specific term), assuming that all outstanding serial Parity Obligations are retired as scheduled and that all outstanding term Parity Obligations are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);
- (2) that portion of the principal amount of all outstanding serial Parity Obligations maturing in such Fiscal Year; and
- (3) that portion of the principal amount of all outstanding term Parity Obligations required to be prepaid or paid in such Fiscal Year;

provided that, as to any such Parity Obligations bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be 115% of the greater of (a) the daily average interest rate on such Parity Obligations during the 12 calendar months preceding the date of calculation (or the portion of the then current Fiscal Year that such Parity Obligations have borne interest) or (b) the most recent effective interest rate on such Parity Obligations prior to the date of calculation; and

provided further that if any series or issue of such Parity Obligations have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Parity Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 20 years from the date of calculation; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted.

#### *District*

“District” means the Camrosa Water District, a county water district, duly organized and existing under and by virtue of the Constitution and laws of the State.

#### *District Independent Certified Public Accountant*

“District Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District that is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

#### *Engineer’s Report*

“Engineer’s Report” means a report signed by an Independent Engineer.

#### *Escrow Agent*

“Escrow Agent” means U.S. Bank National Association, as prior trustee and escrow agent under the Escrow Agreement.

#### *Escrow Agreement*

“Escrow Agreement” means the Escrow Agreement, dated as of February 1, 2012, by and between the District and the Escrow Agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

#### *Event of Default*

“Event of Default” means an event described in the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – EVENTS OF DEFAULT AND REMEDIES – Events of Default and Acceleration of Principal.”

#### *Expense Fund*

“Expense Fund” means the fund by that name established and maintained in accordance with the Trust Agreement.

*Financial Newspaper*

“Financial Newspaper” means The Wall Street Journal or The Bond Buyer, or any other newspaper or journal printed in the English language, publishing financial news and selected by the Trustee, who shall be under no liability by reason of such selection.

*Fiscal Year*

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

*Generally Accepted Accounting Principles*

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the Financial Accounting Standards Board or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

*Holder; Owner*

“Holder” or “Owner” means any person who shall be the registered owner of any Outstanding Bond.

*Independent Engineer*

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water systems or wastewater systems, as applicable, appointed and paid by the District, and who or each of whom --

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to make reports to the District.

*Independent Financial Consultant*

“Independent Financial Consultant” means any financial consultant or firm of financial consultants generally recognized to be well qualified in financial matters relating to utility systems, appointed and paid by the District, and who or each of whom --

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to make reports to the District.

*Installment Sale Agreements; Wastewater Installment Agreement; Water Installment Agreement*

“Installment Sale Agreements” means the Wastewater Installment Agreement and the Water Installment Agreement. The term “Wastewater Installment Agreement” means the 2012 Wastewater

Installment Sale Agreement, dated as of February 1, 2012, between the Authority and the District as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof. The term “Water Installment Agreement” means the 2012 Water Installment Sale Agreement, dated as of February 1, 2012, between the Authority and the District as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof.

*Installment Sale Payments; 2012 Installment Sale Payments*

“Installment Sale Payments” are defined in separately in each Installment Sale Agreement to mean the installment sale, rental or other periodic payments scheduled to be paid by the District under and pursuant to the Contracts as defined in such Installment Sale Agreement. “2012 Installment Sale Payments” as used herein means the Installment Sale Payments scheduled to be paid by the District under and pursuant to the applicable 2012 Installment Sale Agreement.

*Installment Sale Payment Date; 2012 Installment Sale Payment Date*

“Installment Sale Payment Date” means any date on which Installment Sale Payments are scheduled to be paid by the District under and pursuant to any Contract. “2012 Installment Sale Payment Date” means any date on which 2012 Installment Sale Payments are scheduled to be paid by the District under and pursuant to the 2012 Installment Sale Agreement.

*Insurance Consultant*

“Insurance Consultant” means any insurance consultant or firm of insurance consultants generally recognized to be well qualified in insurance consulting matters relating to water and other municipal systems, appointed and paid by the District, and who or each of whom

- (1) is in fact independent and not under the domination of the District;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (3) is not connected with the District as a board member, officer, or employee of the District, but may be regularly retained to make reports to the District.

*Interest Payment Date*

“Interest Payment Date” means January 15 and July 15 of each year, commencing July 15, 2012.

*Joint Powers Agreement*

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement by and between the Camrosa Water District and the California Municipal Financing Authority, dated as of June 1, 2011, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof.

*Maintenance and Operation Costs*

“Maintenance and Operation Costs” means, with respect to the Wastewater System, costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or

engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) allocable to the Wastewater System required to be paid by it to comply with the terms of the Series 2011A Bonds, the Series 2012 Bonds or of the 2012 Installment Sale Agreements or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases (1) costs spent or incurred in connection with the water facilities and (2) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

“Maintenance and Operation Costs” means, with respect to the Water System, costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than debt service payments) allocable to the Water System required to be paid by it to comply with the terms of the Series 2011A Bonds, the Series 2012 Bonds or of the 2012 Water Installment Sale Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases (1) costs spent or incurred in connection with the wastewater facilities and (2) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

#### *Maximum Annual Debt Service*

“Maximum Annual Debt Service” means the greatest total Debt Service (a System specific term) payable in any Fiscal Year during the period commencing with the next ensuing Fiscal Year and terminating with the Fiscal Year in which payments are due under the last outstanding Bonds or the last outstanding Contract, whichever is later.

#### *Net Proceeds*

“Net Proceeds” are defined in separately in each Installment Sale Agreement to mean, when used with respect to any condemnation award or with respect to any insurance proceeds, the amount of such condemnation award or such insurance proceeds remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such award or such proceeds.

#### *Net Wastewater Revenues*

“Net Wastewater Revenues” means, for any Fiscal Year, the Wastewater Revenues during such Fiscal Year less the Maintenance and Operation Costs attributable to the Wastewater System during such Fiscal Year.

#### *Net Water Revenues*

“Net Water Revenues” means, for any Fiscal Year, the Water Revenues during such Fiscal Year less the Maintenance and Operation Costs attributable to the Water System during such Fiscal Year.

#### *Opinion of Counsel*

“Opinion of Counsel” means a written opinion of Orrick, Herrington & Sutcliffe LLP or such other counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority.

### *Opinion of Counsel*

“Opinion of Counsel” means a written opinion of counsel of national representation generally recognized to be well qualified in the field of law relating to tax exempt bonds, retained by the District.

### *Outstanding*

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT – Disqualified Bonds”) all Bonds except:

- (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (ii) Bonds paid or deemed to have been paid within the meaning of the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – DEFEASANCE – Discharge of Bonds”; and
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

### *Parity Obligations*

“Parity Obligations” means, with respect to the Wastewater System, all Bonds and Contracts payable from Wastewater Revenues on a parity with the 2011 Installment Sale Payments and the 2012 Installment Sale Payments and, with respect to the Water System, all Bonds and Contracts payable from Water Revenues on a parity with the 2011 Installment Sale Payments and the 2012 Installment Sale Payments.

### *Permitted Investments*

“Permitted Investments” means any of the following:

- (1) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.
- (2) Obligations of any of the following federal agencies which obligations are secured by the full faith and credit of the United States of America, including:
  - Export – Import Bank
  - Farmers Home Administration
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development (PHA’s)
  - Federal Housing Administration;
- (3) Bonds, notes or other evidences of indebtedness rated “AAA” by Standard & Poor’s Corporation (“Standard & Poor’s”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation or other government-sponsored agencies approved by the Bond Insurer;
- (4) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances (including those of the Trustee or its affiliates) with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (Ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by Standard & Poor’s and “P-1” by Moody’s, and which matures not more than 270 days after the date of purchase;

(6) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s (including funds of the Trustee or its affiliates);

(7) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Standard & Poor’s and Moody’s or any successors thereto; or

(B) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation. In addition to the authority to invest funds in certificates of deposit, an investment in non-negotiable certificates of deposit made in accordance with the following conditions is an authorized investment: (A) the financial institution trust company selected by the District arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity; (B) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (C) the financial institution or trust company selected by the District acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity;

(9) Investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that have been approved by the Bond Insurer;

(10) Any State of California administered pool investment fund in which the Authority is statutorily permitted or required to invest will be deemed a permitted investment; provided, that such investment is held in the name and to the credit of the Trustee;

(11) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended; provided that such shares are held in the name and to the credit of the Trustee; and

(12) Other forms of investments rated in the top two rating categories or higher by any Rating Agency.

*Principal Corporate Trust Office*

“Principal Corporate Trust Office” means the corporate trust office of the Trustee located in Los Angeles, California, or such other office or offices in California, as the Trustee shall designate from time to time.

*Principal Corporate Trust Office*

“Principal Corporate Trust Office” means the corporate trust office of the Trustee located in Los Angeles, California or such other office or offices as the Trustee shall designate from time to time.

*Purchase Price*

“Purchase Price” means the principal amount plus the interest thereon owed by the District to the Authority under the conditions and terms of the respective Installment Sale Agreement for the payment of the costs of the refunding of that portion of the outstanding Series 2001 Bonds which financed or refinanced a portion of the costs of certain capital improvements to the wastewater system of the District and the incidental costs and expenses related thereto paid by the Authority.

*Rating Agencies*

“Rating Agencies” means Standard & Poor’s, a Division of The McGraw Hill Companies, Inc. and Moody’s Investors Service or, in the event that Standard & Poor’s or Moody’s Investors Service no longer maintain a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Standard & Poor’s, Moody’s Investors Service or other nationally recognized rating agency then maintains a rating on the Bonds.

*Rebate Fund*

“Rebate Fund” means the fund by that name established and maintained pursuant to each respective Installment Sale Agreement.

*Rebate Instructions*

“Rebate Instructions” shall have the meaning ascribed thereto in the Tax Certificate.

*Rebate Requirement*

“Rebate Requirement” shall have the meaning ascribed thereto in the Tax Certificate.

*Record Date*

“Record Date” means the close of business 15 days immediately preceding an Interest Payment Date.

*Refunding Law*

“Refunding Law” means Article 11 of Chapter 3 of Division 2 of Title 4 of the Government Code (commencing with Section 53580 of the Government Code) and all laws amendatory thereof or supplemental thereto.

*Representation Letter*

“Representation Letter” means the letters and agreements relating to the Series 2012 Bonds, filed with The Depository Trust Company, New York, New York.

*Reserve Account*

“Reserve Account” means the fund by that name established pursuant to the Trust Agreement as summarized herein in paragraph (c) under the caption “TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.”

*Reserve Account Requirement*

“Reserve Account Requirement” means, as of any date of calculation, an amount equal to the least of: (i) ten percent (10%) of the original principal amount of the Series 2012 Bonds; (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the Series 2012 Bonds; and (iii) Maximum Annual Debt Service on the Series 2012 Bonds Outstanding.

*Revenues*

“Revenues” means all 2012 Installment Sale Payments and other payments paid by the District and received by the Authority pursuant to the Installment Sale Agreements and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) in accordance with the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – REVENUES – Deposit and Investments of Money in Accounts and Funds.”

*Securities Depository*

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, New York, New York 10041-0099; or such other addresses and/or such other securities depositories as the Authority may designate.

*Series 2001 Bonds*

“Series 2001 Bonds” means the Camrosa Water District Water and Wastewater Systems Refunding Revenue Bonds, Series 2001 previously issued by the District pursuant to the Series 2001 Indenture.

*Series 2001 Indenture*

“Series 2001 Indenture” means the Indenture, dated as of December 1, 2001, by and between the District and U.S. Bank National Association (as successor to State Street Bank and Trust Company of California N.A.) pursuant to which the Series 2001 Bonds were issued.

*State*

“State” means the State of California.

*Supplemental Trust Agreement*

“Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Trust Agreement or supplemental to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

*System*

“Systems” means the Wastewater System and the Water System.

*2011 Installment Sale Payments*

“2011 Installment Sale Payments” means the Installment Sale Payments scheduled to be paid by the District under and pursuant to the 2011 Wastewater Installment Sale Agreement or 2011 Water Installment Sale Agreement.

*2011 Wastewater Installment Sale Agreement*

“2011 Wastewater Installment Sale Agreement” means the 2011 Wastewater Installment Sale Agreement, dated as of October 1, 2011, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

*2011 Water Installment Sale Agreement*

“2011 Water Installment Sale Agreement” means the 2011 Water Installment Sale Agreement, dated as of October 1, 2011, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof.

*2012 Installment Sale Agreement*

“2012 Installment Sale Agreement” means the respective installment sale agreement by and between the District and the Authority, dated as of February 1, 2012, as originally executed and as it may from time to time be amended or supplemented in accordance with the respective Installment Sale Agreement and with the terms of the Trust Agreement.

*2012 Installment Sale Payment Fund*

“2012 Installment Sale Payment Fund” means the fund by that name established pursuant to each respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments.”

*2012 Installment Sale Payment Year*

“2012 Installment Sale Payment Year” means the twelve-month period ending on January 15 of each year.

*Tax Certificate*

“Tax Certificate” means the Tax Certificate delivered by the Authority and the District at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

*Treasurer of the Authority*

“Treasurer of the Authority” means the Treasurer or Interim Treasurer or Acting Treasurer of the Authority or its successor designated by the Authority.

*Trust Agreement*

“Trust Agreement” means the Trust Agreement, dated as of February 1, 2012, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

*Trustee*

“Trustee” means Wells Fargo Bank, National Association, at its Principal Corporate Trust Office, acting in its capacity as trustee under and pursuant to the Trust Agreement, and its successors and assigns as provided in the Trust Agreement.

*Utility Revenue Fund*

“Utility Revenue Fund” means the fund by that name established pursuant to each respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments.”

*Wastewater Project; 2012 Wastewater Project*

“Wastewater Project” means any additions, betterments, extensions or improvements to the Wastewater System designated by the Board of Directors of the District as a designated Wastewater Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of any Bonds or any Contracts. “2012 Wastewater Project” means the refunding of that portion of the outstanding Series 2001 Bonds which financed or refinanced a portion of the costs of certain capital improvements to the wastewater system of the District.

*Wastewater Rate Stabilization Fund*

“Wastewater Rate Stabilization Fund” means the fund by that name established by the District pursuant to its Statement of Reserve Fund Policy adopted by the Board of Directors of the District on June 22, 2011.

*Wastewater Revenues*

“Wastewater Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the ownership and operation of the Wastewater System or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, (2) the proceeds of any development fees, capital facility fees or connection fees or any other fees in connection with Wastewater Service, (3) all property taxes received by the District, to the extent that such taxes are allocated to and deposited in the Utility Revenue Fund, (4) all deposits to the Utility Revenue Fund from amounts on deposit in the Wastewater Rate Stabilization Fund, but only as and to the extent specified in the Wastewater Installment Sale Agreement as summarized herein in paragraph (f) under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments,” and (5) the earnings properly allocable to the Wastewater System on and income derived from the investment of amounts described in clauses (1), (2), (3) and (4) above and from District reserves, but excluding (w) all income, rents, rates, fees, charges and other moneys derived from the sale, furnishing and supplying of water, including property taxes received by the District and allocated to the Water System, (x) all amounts derived from District hydroelectric facilities, (y) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District and (z) any proceeds of taxes restricted by law to be used by the District to pay bonds or other obligations heretofore or hereafter issued.

*Wastewater Service*

“Wastewater Service” means the sewer, collection, treatment and disposal services made available or provided by the Wastewater System and excluding any water distribution service.

### *Wastewater System*

“Wastewater System” means the whole and each and every part of the wastewater system of the District, including all real property and buildings, including the portion thereof existing on the date of issuance of the Series 2012 Bonds, and including all additions, betterments, extensions and improvements to such wastewater system or any part thereof hereafter acquired or constructed but excluding any facilities which are part of the District’s Water System.

### *Water Rate Stabilization Fund*

“Water Rate Stabilization Fund” means the fund by that name established by the District pursuant to its Statement of Reserve Fund Policy adopted by the Board of Directors of the District on June 22, 2011.

### *Water Project; 2012 Water Project*

“Water Project” means any additions, betterments, extensions or improvements to the Water System designated by the Board of Directors of the District as a designated Water Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of any Bonds or any Contracts. “2012 Water Project” means the refunding of that portion of the outstanding Series 2001 Bonds which financed or refinanced a portion of the costs of certain capital improvements to the water system of the District.

### *Water Revenues*

“Water Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the ownership and operation of the Water System or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, (2) the proceeds of any development fees, capital facility fees or connection fees or any other fees in connection with Water Service, (3) all property taxes received by the District, to the extent that such taxes are allocated to and deposited in the Utility Revenue Fund, (4) all deposits to the Utility Revenue Fund from amounts on deposit in the Water Rate Stabilization Fund, but only as and to the extent specified in the Water Installment Sale Agreement as summarized herein in paragraph (d) under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments,” and (5) the earnings properly allocable to the Water System on and income derived from the investment of amounts described in clauses (1), (2), (3) and (4) above and from District reserves, but excluding (w) all income, rents, rates, fees, charges and other moneys derived from the sewer, collection, treatment and disposal services, including property taxes received by the District and allocated to the Wastewater System, (x) all amounts derived from District hydroelectric facilities, (y) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District and (z) any proceeds of taxes restricted by law to be used by the District to pay bonds or other obligations heretofore or hereafter issued.

### *Water Service*

“Water Service” means the sale, furnishing and supplying of water services made available or provided by the Water System and excluding sewer, collection, treatment and disposal services.

### *Water System*

“Water System” means the whole and each and every part of the water system of the District, including all real property and buildings, including the portion thereof existing on the date of issuance of the Series 2012 Bonds, and including all additions, betterments, extensions and improvements to such water

system or any part thereof hereafter acquired or constructed but excluding any facilities which are part of the District's Wastewater System.

*Written Request of the Authority*

"Written Request of the Authority" means an instrument in writing signed by the Treasurer or Interim Treasurer of the Authority or by any other officer of the Authority duly authorized by the Authority for that purpose.

*Written Request of the District*

"Written Request of the District" means an instrument in writing signed by the General Manager or Interim General Manager authorized designee of the District, or by any other officer of the District duly authorized by the Board of Directors for that purpose.

**TRUST AGREEMENT**

**ISSUANCE OF SERIES 2012 BONDS**

**Transfer and Payment of Series 2012 Bonds.** Any Series 2012 Bonds may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series 2012 Bonds for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. Whenever any Series 2012 Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of the same series and maturity for a like aggregate principal amount in authorized denominations. The Trustee shall require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Authority and the Trustee may deem and treat the Holder of any Series 2012 Bonds as the absolute owner of such Series 2012 Bonds for the purpose of receiving payment thereof and for all other purposes, whether such Series 2012 Bonds shall be overdue or not, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of such Series 2012 Bonds shall be made only to such Holder, which payments shall be valid and effectual to satisfy and discharge liability on such Series 2012 Bonds to the extent of the sum or sums so paid.

The Trustee shall not be required to issue, register the transfer of or exchange any Series 2012 Bonds during the 15 days preceding each Interest Payment Date.

**Exchange of Series 2012 Bonds.** Series 2012 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Series 2012 Bonds of the same series and maturity of other authorized denominations. The Trustee shall require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

**Series 2012 Bond Registration Books.** The Trustee will keep at its Principal Corporate Trust Office sufficient books for the registration and transfer of the Series 2012 Bonds which shall at all times be open to inspection by the Authority during regular business hours with reasonable prior notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Series 2012 Bonds in such books as provided in the Trust Agreement.

**Mutilated, Destroyed, Stolen or Lost Series 2012 Bonds.** If any Series 2012 Bond shall become mutilated the Trustee at the expense of the Holder shall thereupon authenticate and deliver, a new Series 2012 Bond of like tenor in exchange and substitution for the Series 2012 Bond so mutilated, but only upon surrender

to the Trustee of the Series 2012 Bond so mutilated. Every mutilated Series 2012 Bond so surrendered to the Trustee shall be cancelled in accordance with its retention policy then in effect.

If any Series 2012 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Holder, shall thereupon authenticate and deliver, a new Series 2012 Bond of like tenor in lieu of and in substitution for the Series 2012 Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Series 2012 Bond issued under this section and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Series 2012 Bond issued under the provisions of this section in lieu of any Series 2012 Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Bonds of the same series secured by the Trust Agreement. Neither the Authority nor the Trustee shall be required to treat both the original Series 2012 Bond and any replacement Series 2012 Bond as being Outstanding for the purpose of determining the principal amount of Series 2012 Bonds which may be issued under the Trust Agreement or for the purpose of determining any percentage of Series 2012 Bonds Outstanding under the Trust Agreement, but both the original and replacement Series 2012 Bond shall be treated as one and the same.

**Temporary Series 2012 Bonds.** The Series 2012 Bonds issued under the Trust Agreement may be initially issued in temporary form exchangeable for definitive Series 2012 Bonds when ready for delivery. The temporary Series 2012 Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in fully registered form and may contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Series 2012 Bond shall be executed and authenticated as authorized by the Authority, in accordance with the terms of the Act. If the Authority issues temporary Series 2012 Bonds it will execute and furnish definitive Series 2012 Bonds without delay and thereupon the temporary Series 2012 Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Series 2012 Bonds an equal aggregate principal amount of definitive Series 2012 Bonds of authorized denominations. Until so exchanged, the temporary Series 2012 Bonds shall be entitled to the same benefits under the Trust Agreement as definitive Series 2012 Bonds delivered under the Trust Agreement.

**Validity of Series 2012 Bonds.** The validity of the issuance of the Series 2012 Bonds shall not be dependent on or affected in any way by the proceedings taken by the Authority for the refunding of the Series 2001 Bonds and refinancing of the Projects or by any contracts made by the Authority or its agents in connection therewith. The recital contained in the Series 2012 Bonds that the same are issued pursuant to the Act and pursuant to the Trust Agreement shall be conclusive evidence of their validity and of the regularity of their issuance, and all Series 2012 Bonds shall be incontestable from and after their issuance. The Series 2012 Bonds shall be deemed to be issued, within the meaning of the Trust Agreement, whenever the definitive Series 2012 Bonds (or any temporary Series 2012 Bonds exchangeable therefor) shall have been delivered to the purchaser thereof and the proceeds of sale thereof received.

**Special Covenants as to Book-Entry Only System for Series 2012 Bonds.** (a) Except as otherwise provided in subsections (b) and (c) of this section, all of the Series 2012 Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Series 2012 Bond registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Series 2012 Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Series 2012 Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of such Series 2012 Bonds, representing the aggregate principal amount of the Series 2012 Bonds of such maturity. Upon initial issuance, the ownership of all such Series 2012 Bonds shall be registered in the registration records maintained by the Trustee pursuant to the Trust

Agreement in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Series 2012 Bonds registered in its name for the purposes of payment of the principal or redemption price of and interest on such Series 2012 Bonds, selecting the Series 2012 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Holders under the Trust Agreement, registering the transfer of Series 2012 Bonds, obtaining any consent or other action to be taken by Holders of the Series 2012 Bonds and for all other purposes whatsoever; and neither the Trustee nor the Authority or any paying agent shall be affected by any notice to the contrary. The Trustee shall pay all principal of and premium, if any, and interest on the Series 2012 Bonds only at the times contained in the Trust Agreement to DTC, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on the Series 2012 Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Series 2012 Bonds will be transferable to such new nominee in accordance with subsection (f) of this section.

(c) In the event that the Authority determines that it is in the best interests of the beneficial owners of the Series 2012 Bonds that they be able to obtain bond certificates, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Series 2012 Bonds will be transferable in accordance with subsection (f) of this section. DTC may determine to discontinue providing its services with respect to the Series 2012 Bonds at any time by giving written notice of such discontinuance to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series 2012 Bonds will be transferable in accordance with subsection (f) of this section. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Series 2012 Bonds then Outstanding. In such event, the Series 2012 Bonds will be transferable to such securities depository in accordance with subsection (f) of this section, and thereafter, all references in the Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of the Trust Agreement to the contrary, so long as all Series 2012 Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Series 2012 Bond and all notices with respect to each such Series 2012 Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Authority shall cause the Representation Letter to be executed and delivered and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under the Trust Agreement.

(f) In the event that any transfer or exchange of Series 2012 Bonds is authorized under subsection (b) or (c) of this section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Series 2012 Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of in accordance with the Trust Agreement as summarized herein under the caption "TRUST AGREEMENT – ISSUANCE OF SERIES 2012 BONDS – Transfer and Payment of Series 2012 Bonds" and "– Exchange of Series 2012 Bonds." In the event Series 2012 Bond certificates are issued to Holders other than Cede & Co., its successor as nominee for DTC as holder of all the Series 2012 Bonds, another securities depository as holder of all the Series 2012 Bonds, or the nominee of such successor securities depository, the provisions of referenced immediately above shall also apply to, among other things, the registration, exchange and transfer of the Series 2012 Bonds and the method of payment of principal of, premium, if any, and interest on the Series 2012 Bonds.

## REVENUES

**Pledge of Revenues.** All Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund in accordance with the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants”) are, under the terms of the Trust Agreement, irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge shall constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (other than amounts on deposit in the Rebate Fund in accordance with the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants”) for the payment of the interest on and principal of the Bonds in accordance with the terms thereof. The Authority, under the terms of the Trust Agreement, assigns to the Trustee all of the Authority’s rights and remedies under the Installment Sale Agreements.

**Receipt and Deposit of Revenues in the Revenue Fund.** In order to carry out and effectuate the pledge, charge and lien contained in the Trust Agreement, the Authority agrees and covenants that all Revenues when and as received shall be received by the Authority in trust under the Trust Agreement for the benefit of the Holders and shall be deposited when and as received by the Authority in the Revenue Fund (the “Revenue Fund”), which fund is, under the terms of the Trust Agreement, created and which fund the Authority, under the terms of the Trust Agreement, agrees and covenants to maintain with the Trustee so long as any Bonds shall be Outstanding under the Trust Agreement. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Trust Agreement, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses specified in the Trust Agreement, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

**Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.** Subject to the terms of the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants,” all money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts within the Revenue Fund (each of which is, under the terms of the Trust Agreement, created and each of which the Authority, under the terms of the Trust Agreement, covenants and agrees to cause to be maintained with the Trustee) in the following order of priority:

- (a) Interest Account,
- (b) Principal Account,
- (c) Reserve Account, and
- (d) Surplus Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Trust Agreement.

(a) *Interest Account.* On or before each January 15 and July 15, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such January 15 or July 15, as the case may be.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

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

(b) *Principal Account.* On or before each January 15, commencing January 15, 2013, the Trustee shall set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the aggregate amount of all sinking fund payments required to be made on such January 15 into the respective sinking fund accounts for all Outstanding Term Bonds and the aggregate principal amount of all Outstanding Serial Bonds maturing on such January 15.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such January 15 plus the aggregate amount of all sinking fund payments required to be made on such January 15 for all Outstanding Term Bonds.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable at maturity.

(c) *Reserve Account.* On or before the last day of each month, so long as any Series 2012 Bonds are Outstanding, beginning in January 2013, the Trustee shall set aside from the Revenue Fund and deposit in the Reserve Account the amount of money that shall be required to maintain the Reserve Account in the full amount of the Reserve Account Requirement. No deposit need be made in the Reserve Account so long as there shall be on deposit therein a sum equal to at least the amount required by this paragraph to be on deposit therein.

All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account, in that order, in the event of any deficiency at any time in either of such accounts, but solely for the purpose of paying the interest on or principal of the Series 2012 Bonds or for the retirement of all the Series 2012 Bonds then Outstanding, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Account in excess of the amount required by this subsection (c) to be on deposit therein shall be withdrawn from the Reserve Account and deposited in the Revenue Fund.

Whenever the amount on deposit in the Reserve Account falls below the Reserve Account Requirement, the Trustee shall send a notice to the District in writing stating the amount of the deficiency resulting from (i) delinquencies in payments under a respective Installment Sale Agreement, (ii) delinquencies in payments under the Wastewater Installment Agreement and (iii) a decline in the value of investments in the Reserve Account. Pursuant to the respective Installment Sale Agreement as summarized herein in paragraph (b) under the caption "INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments," the District shall deposit with the Trustee the requisite amount from each of the Revenue Funds under each Installment Sale Agreement to replenish the Reserve Account. In the event that any part of the deficiency in the Reserve Account is due to a decline in the value of investments in the Reserve Account, such replenishment shall be made from the Utility Revenue Fund under each Installment Sale Agreement in proportion to the principal amount of 2012 Installment Sale Payments remaining unpaid under each Installment Sale Agreement, respectively, and the written notice from the Trustee shall specify such proportionate amounts.

(d) *Surplus Account.* The Trustee, on or before January 15 of each year, beginning on January 15, 2013, shall deposit in the Surplus Account all money remaining in the Revenue Fund after the deposits required by the Trust Agreement as summarized herein under the caption "TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants" and subsections (a), (b) and (c) of this section have been made. On January 31 of each year, beginning on January 31, 2013, the Trustee, if the Authority is not then in default under the Trust Agreement, shall disburse the money in the Surplus Account to the District.

**Deposit and Investments of Money in Accounts and Funds.** Subject to the terms of the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants.” all money held by the Trustee in any of the accounts or funds established pursuant to the Trust Agreement shall be invested in Permitted Investments at the Written Request of the Authority. If the Authority fails to direct the Trustee to invest any such moneys, they shall be invested in Permitted Investments of the type described in paragraph (6) thereof; provided that the Trustee shall have received a Written Request of the District specifying Wells Fargo Advantage Fund or a successor money market fund offered by the Trustee, and, if no such Written Request of the District is so received, the Trustee shall hold such moneys uninvested. All money held in the Reserve Account shall be invested in Permitted Investments with a term to maturity not exceeding five years or invested in Permitted Investments of the type described in paragraph (8) thereof. All investments under the Trust Agreement shall be valued by the Trustee annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions).

Subject to the terms of the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants,” all investment earnings or profits received on any money held in the funds and accounts established under the Trust Agreement shall be deposited in the Revenue Fund (except for investment earnings on the Rebate Fund, which shall be retained therein).

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority with periodic cash transaction statements that include detail for all investment transactions made by the Trustee under the Trust Agreement.

#### **COVENANTS OF THE AUTHORITY**

**Punctual Payment and Performance.** The Authority will punctually pay out of the Revenues the interest on and the principal of every Bond issued under the Trust Agreement in strict conformity with the terms of the Trust Agreement and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained in the Trust Agreement and in the Bonds.

**Against Encumbrances.** The Authority will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

**Tax Covenants.** (a) The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Series 2012 Bonds under Section 103 of the Code. The Authority covenants that it will not directly or indirectly use or permit the use of any proceeds of the Series 2012 Bonds or any other funds of the Authority or take or permit to be taken or omit or permit the omission of any action or actions that would cause the Series 2012 Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the Authority will comply with all applicable regulations of Section 148 of the Code and all applicable regulations of the United States Department of the Treasury. In the event that at any time the Authority is of the opinion that for purposes of this section or the terms of the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Tax Covenants” it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or the Installment Sale Agreements or otherwise, the Authority shall so instruct the Trustee in writing, and the Trustee shall take the action required by such instructions. The Trustee shall not be liable by complying with such instructions.

(b) The District has agreed under each Installment Sale Agreement to establish and maintain a fund designated the Rebate Fund separate from any other fund established and maintained under such Installment Sale Agreement. The District shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this section and the terms of the respective

Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Tax Covenants,” moneys held in the Rebate Fund are, under the terms of the Trust Agreement, pledged to secure payments to the United States government, and the Authority and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the Authority agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the code and any temporary, proposed or final treasury regulations as may be applicable to the Series 2012 Bonds from time to time. This covenant shall survive payment in full or defeasance of the Series 2012 Bonds. The Authority specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined in accordance with the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – COVENANTS OF THE AUTHORITY – Tax Covenants,” the Rebate Requirement. The Trustee agrees to comply with all Rebate Instructions given in accordance with this covenant.

If the Rebate Instructions so direct, the Trustee shall transfer moneys to the District for deposit into the Rebate Fund from such accounts or funds as the Rebate Instructions direct. The Trustee shall conclusively be deemed to have complied with the provisions of this section and the terms of the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Tax Covenants” if it follows the directions of the District set forth in the Rebate Instructions and shall not be required to take any actions under the Trust Agreement in the absence of Rebate Instructions from the District.

(c) Notwithstanding any provision of this section or the terms of the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Tax Covenants,” if the District shall provide to the Trustee an Opinion of Counsel that any specified action required under this section or the terms of the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Tax Covenants” is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Series 2012 Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

**Accounting Records and Reports.** The Authority will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the Authority shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Authority shall also keep or cause to be kept such other information as required under the Rebate Certificate.

**Prosecution and Defense of Suits.** The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to the extent involving the failure of the Authority to fulfill its obligations under the Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Authority, and will indemnify and hold harmless the Trustee against any attorney’s fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence or willful misconduct by the Trustee. Notwithstanding any contrary provision of the Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured, under the terms of the Trust Agreement, may have been fully paid and satisfied.

**Continuing Disclosure.** Pursuant to the Installment Sale Agreements as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Continuing Disclosure,” the District has undertaken all responsibility for compliance with continuing disclosure requirements pursuant to Rule 15c2-12, and the Authority shall have no liability to the Holders of the Series 2012 Bonds or any other person with respect to Rule 15c2-12. The Trustee, under the terms of the Trust Agreement, covenants and agrees that, subject to the provisions of the Trust Agreement, it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and the Installment Sale Agreements as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Continuing Disclosure” applicable to it. Notwithstanding any other provision of the Trust Agreement, failure of the District or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee, at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount in Outstanding Series 2012 Bonds, shall (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expenses of its counsel and agents and additional fees and charges of the Trustee) or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under the Installment Sale Agreements or respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Continuing Disclosure” or, as to any Holder or Beneficial Owner, to cause the Trustee to comply with its obligations under this section.

#### **THE TRUSTEE**

**The Trustee.** Wells Fargo Bank, National Association shall serve as the Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest on and principal of the Bonds presented for payment at the Principal Corporate Trust Office of the Trustee, with the rights and obligations provided in the Trust Agreement. The Authority agrees that it will at all times maintain a Trustee having a principal office in San Francisco or Los Angeles, California.

The Authority may, upon not less than 14 days’ prior written notice (which notice may be waived by the Trustee) and with the written consent of the Bond Insurer, unless there exists any event of default as defined in Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF HOLDERS – Events of Default and Acceleration of Maturities,” remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a principal office in San Francisco or Los Angeles, California, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Authority shall remove the Trustee if requested by the Bond Insurer for any material breach of its duties under the Trust Agreement. The Trustee may at any time resign by giving written notice of such resignation to the Authority and by mailing to the Bond Insurer and the Holders notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. No resignation or removal of the Trustee shall become effective until a successor, acceptable to the Bond Insurer, has been appointed and has accepted the duties of Trustee. The Bond Insurer shall be furnished with written notice of the resignation or removal of the Trustee and the appointment of any successor thereto. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a

successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required under the terms of the Trust Agreement.

The Trustee is, under the terms of the Trust Agreement, authorized to redeem the Bonds when duly presented for payment at maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the Authority and shall destroy such Bonds in accordance with its retention policy then in effect. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Authority shall from time to time, subject to any agreement between the Authority and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all its advances and expenditures including but not limited to advances to and fees and expenses of independent accountants and counsel or other experts employed by it and reasonably required in the exercise and performance of its rights and obligations under the Trust Agreement, and, to the extent permitted by law, indemnify and hold the Trustee harmless against liabilities, costs, claims, expenses, of any kind whatsoever, including without limitations, fees and expenses of its attorneys and advisors, not arising from the Trustee's own active or passive negligence or willful misconduct, which the Trustee may incur in the exercise and performance of its rights and obligations under the Trust Agreement. Such indemnity shall survive the resignation or removal of the Trustee and defeasance of the Bonds.

**Liability of Trustee.** The recitals of facts, agreements and covenants in the Trust Agreement and in the Bonds shall be taken as recitals of facts, agreements and covenants of the Authority, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity of the Trust Agreement or of the Bonds, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it in the Trust Agreement, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement except for its own active or passive negligence or willful misconduct. The Trustee shall perform only such duties as are expressly provided in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement against the Trustee.

The Trustee shall not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be established or proved prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority, which certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than 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 Trust Agreement. The permissive right of the Trustee to do things enumerated in the Trust Agreement shall not be construed as a duty.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of any of the Holders pursuant to the provisions of the Trust

Agreement unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

The Trustee shall not be deemed to have knowledge of any event of default under the Trust Agreement or event of default under the Installment Sale Agreements unless and until the President or any Vice President, Assistant Vice President or Trust Officer shall have actual knowledge thereof or shall have received written notice thereof at its Principal Corporate Trust Office. Except as otherwise expressly provided in the Trust Agreement, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Bonds or as to the existence of an event of default under the Trust Agreement.

No provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of its rights or powers. The Trustee has no obligation or liability to the Holders for the payment of interest on or principal of the Bonds.

The Trustee shall not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Trustee shall not be responsible for the recording or filing of any document relating to the Trust Agreement or of financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Trust Agreement.

The rights given the Trustee under the Installment Sale Agreements are subject in all respects to the privileges and immunities afforded the Trustee under the Trust Agreement.

The Trustee shall be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and his or her title thereto is satisfactorily established, if disputed.

Notwithstanding any other provision of the Trust Agreement, in determining whether the rights of the Holders will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Holders as if there were no Bond Insurance Policy.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee may establish such funds and accounts under the Trust Agreement as it deems necessary or appropriate to perform its obligations under the Trust Agreement.

## AMENDMENT OF THE TRUST AGREEMENT

**Amendment of the Trust Agreement.** The Trust Agreement and the rights and obligations of the Authority and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – AMENDMENT OF THE TRUST AGREEMENT – Disqualified Bonds” and the written consent of the Bond Insurer are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of any Bond without the express written consent of the Holder of such Bond, or (2) permit the creation by the Authority of any pledge of or charge or lien upon the Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created, under the terms of the Trust Agreement, for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the Trustee, the Authority or the District without their prior written assent thereto, respectively.

The Trust Agreement and the rights and obligations of the Authority and of the Holders may also be amended at any time by a Supplemental Trust Agreement, which shall become binding upon adoption with the written consent of the Bond Insurer, but without the consent of any Holders and only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Authority may deem desirable or necessary and not inconsistent with the Trust Agreement; or

(c) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner that affects the rights of the Bond Insurer under the Trust Agreement without the prior written consent of the Bond Insurer.

Notwithstanding the foregoing, any amendment or supplement to the Trust Agreement shall only become effective fifteen (15) days after written notice of such amendment or supplement, together with a copy thereof, has been provided to the Rating Agencies.

**Disqualified Bonds.** Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement.

**Endorsement or Replacement of Bonds After Amendment.** After the effective date of any action taken as provided in the Trust Agreement, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of his Bond for such purpose at the corporate trust office of the Trustee a suitable notation as to such action shall be made on such-Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or

Bonds shall be exchanged at the corporate trust office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

**Amendment by Mutual Consent.** The provisions of the Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

#### **EVENTS OF DEFAULT AND REMEDIES OF HOLDERS**

**Events of Default and Acceleration of Maturities.** If one or more of the following events (herein called “events of default”) shall happen, that is to say:

- (a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;
- (b) if default shall be made by the Authority in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable at maturity as therein expressed;
- (c) if default shall be made by the Authority in the performance of any of the agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default shall have continued for a period of 60 days after the Authority shall have been given notice in writing of such default by the Trustee; or
- (d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such event of default the Trustee may, with the written consent of the Bond Insurer, and shall, at the written direction of the Bond Insurer or the Holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding with the written consent of the Bond Insurer, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing and of which the Trustee has notice pursuant to the Trust Agreement. Such notice shall include a reference to or a summary of the rights and remedies available to the Holders as set forth in the Trust Agreement.

Upon the occurrence and continuance of an event of default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders and the Trustee for the benefit of the Holders under the Trust Agreement, including, without limitation: (i) the right to accelerate the principal of the Bonds as described above and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of events of default under the Trust Agreement. With respect to any reorganization or liquidation plan with respect to the Authority must be acceptable to the Bond Insurer, and in such any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Holders absent a default by the Bond Insurer under the Bond Insurance Policy.

In determining whether an event of default has occurred as described in the Trust Agreement as summarized herein in paragraphs (a) or (b) under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF HOLDERS – Events of Default and Acceleration of Maturities” or whether

payment has been made on the Series 2012 Bonds, payments made under the Bond Insurance Policy shall not be considered.

For all purposes of the Trust Agreement governing events of default and remedies, except for the giving of notice of default to Holders, the Bond Insurer shall be deemed to be the sole holder of the Series 2012 Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

The provision above permitting the declaration of the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately is subject to the condition that if at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the Authority shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than 51% in aggregate principal amount of Bonds then Outstanding with the written consent of the Bond Insurer, by written notice to the Authority and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Application of Funds Upon Acceleration.** All moneys in the accounts and funds provided in accordance with the Trust Agreement as summarized herein under the captions “TRUST AGREEMENT – ISSUANCE OF SERIES 2012 BONDS – Procedure for the Issuance of Series 2012 Bonds; Deposit and Use of Proceeds of Series 2012 Bonds and Certain Other Moneys; Deposit of Surety Bond to Reserve Account, “REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund” and “– Deposit and Investments of Money in Accounts and Funds” upon the date of the declaration of acceleration by the Trustee as provided in accordance with the Trust Agreement as summarized herein under the caption “TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF HOLDERS – Events of Default and Acceleration of Maturities” and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order--

First, to the payment of the costs and expenses of the Trustee and then to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, and in carrying out the provisions of the Trust Agreement, including reasonable compensation to their accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money 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 (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

**Institution of Legal Proceedings by Trustee.** If one or more of the events of default shall happen and be continuing, the Trustee may, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, or upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Trust Agreement and under the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT” by a suit in equity or action at law, either for the

specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted under the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

**Non-Waiver.** Nothing in the Trust Agreement or in the Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Holders of the Bonds at the respective dates of maturity from the Revenues as provided in the Trust Agreement pledged for such payment, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Trust Agreement and in the Bonds.

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

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

**Actions by Trustee as Attorney-in-Fact.** Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is, under the terms of the Trust Agreement, appointed (and the successive Holders, by taking and holding the Bonds issued under the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

**Remedies Not Exclusive.** No remedy conferred under the Trust Agreement upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement 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 Act or any other law.

**Limitation on Holders' Right to Sue.** No Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined in the Trust Agreement as summarized herein under the caption "TRUST AGREEMENT – EVENTS OF DEFAULT AND REMEDIES OF HOLDERS – Events of Default and Acceleration of Maturities"; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Trust Agreement or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, under the terms of the Trust Agreement, declared, in every case, to be conditions precedent to the exercise by any owner of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more owners of Bonds

shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement, and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the equal benefit of all Holders of the Outstanding Bonds.

## **DEFEASANCE**

### **Discharge of Bonds.**

(a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and the principal thereof at the times and in the manner stipulated in the Trust Agreement and in the Bonds, then the Holders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Authority to the Holders of such Bonds under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest on and principal of such Bonds.

(b) Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement as described in this Official Statement under the caption "THE BONDS – Redemption of Bonds," (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clauses (1) or (2) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book-entry form on the books of the Treasury of the United States of America) or tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, as set forth in a written report of an Authority Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date thereof, as the case may be, and the principal of such Bonds, and (3) the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date upon which money is to be available for the payment of the principal of such Bonds. If a forward supply contract is employed in connection with such defeasance of the Bonds, (i) the written report of the Authority Independent Certified Public Accountant shall expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement and the Trust Agreement, the terms of the escrow agreement and the Trust Agreement shall be controlling. No payment under the Bond Insurance Policy shall be deemed a payment on the Bonds under subsection (a) of this section, and if any payments on the Bonds are made pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding until paid in full by the Authority.

(c) Notwithstanding anything to the contrary set forth in this section, the obligations of the Authority under the Trust Agreement shall not be discharged or terminated until all Policy Costs owing to the insurance company in accordance with the Trust Agreement as summarized herein in paragraph (c)(2)(B) under the caption "TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund" shall have been paid in full.

**Unclaimed Money.** Anything contained in the Trust Agreement to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for 2 years after the date when such Bonds have become due and payable at their stated maturity dates, if such money was held by the Trustee at such date, or for 2 years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee may, and at the request of the Authority shall, at the expense of the Authority, cause to be published once a week for 2 successive weeks in a Financial Newspaper of general circulation in San Francisco and in Los Angeles, California and in the same or a similar Financial Newspaper of general circulation in New York, New York a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

## MISCELLANEOUS

**Liability of Authority Limited to Revenues.** Notwithstanding anything contained in the Trust Agreement, the Authority shall not be required to advance any money derived from any source other than the Revenues as provided in the Trust Agreement for the payment of the interest on or principal of the Bonds or for the performance of any agreements or covenants contained in the Trust Agreement. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring any indebtedness.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from the Revenues as provided in the Trust Agreement, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the Authority, the State of California or any of its political subdivisions, and neither the Authority, said State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided in the Trust Agreement. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

**Benefits of the Trust Agreement Limited to Parties.** Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Authority, the Trustee, the Bond Insurer and the Holders any right, remedy or claim under or by reason of the Trust Agreement. Any agreement or covenant required in the Trust Agreement to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee, the Bond Insurer and the Holders.

**Successor Is Deemed Included In All References To Predecessor.** Whenever under the Trust Agreement either the Authority or any member, officer or employee thereof or of the State of California is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions with respect to the Projects that are presently vested in the Authority or such member, officer or employee, and all agreements and covenants required, under the terms of the Trust Agreement, to be performed by or on behalf of the Authority or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

**Execution of Documents by Holders.** Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Holders may be in one or more instruments of similar tenor and may be executed by Holders in person or by their attorneys appointed in writing. The fact and date of the execution by any Holder or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to

act that the person signing such declaration, request 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 any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Bonds at the corporate trust office of the Trustee.

Any declaration, request or other instrument or writing of the Holder of any Bond shall bind all future Holders of such Bond with respect to anything done or suffered to be done by the Authority in good faith and in accordance therewith.

**Waiver of Personal Liability.** No member, officer or employee of the Authority or the District shall be individually or personally liable for the payment of the interest on or principal of the Bonds by reason of their issuance, but nothing contained in the Trust Agreement shall relieve any such member, officer or employee from the performance of any official duty provided by the Act or any other applicable provisions of law or under the terms of the Trust Agreement.

**Acquisition of Bonds by Authority.** All Bonds acquired by the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

**Destruction of Cancelled Bonds.** Whenever provision is made for the return to the Authority of any Bonds which have been cancelled pursuant to the provisions of the Trust Agreement, the Authority may, by a Written Request of the Authority, direct the Trustee to destroy such Bonds in accordance with its retention policy then in effect.

**Content of Certificates.** Every Certificate of the Authority with respect to compliance with any agreement, condition, covenant or provision provided in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or provision and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or provision has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or provision has been complied with.

Any Certificate of the Authority may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Authority, upon a representation by an officer or officers of the Authority unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

**Accounts and Funds; Business Days.** Any account or fund required in the Trust Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such accounts and funds shall at all times be maintained in accordance with the Rebate Certificate and sound industry practice and with due regard for the protection of the security of the Bonds and the rights of the Holders. Any action required to occur under the Trust Agreement on a day which is not a Business Day shall be required to occur on the next succeeding Business Day.

**Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required, under the terms of the Trust Agreement, to be performed by or on the part of the Authority or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions

thereof and shall in no way affect the validity of the Trust Agreement or of the Bonds, and the Holders shall retain all the benefit, protection and security afforded to them under the Act or any other applicable provisions of law.

**Amendments to Installment Sale Agreements.** The Authority shall not supplement, amend, modify or terminate any of the terms of either Installment Sale Agreement, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee and the Bond Insurer, if any. The Trustee shall give such written consent only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Holders or result in any material impairment of the security, under the terms of the Trust Agreement, given for the payment of the Bonds, or (b) the Trustee first obtains the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of 2012 Installment Sale Payments to be made to the Authority or the Trustee by the District pursuant to such Installment Sale Agreement, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by such Installment Sale Agreement on Revenues (except as expressly provided in the respective Installment Sale Agreement), in each case without the written consent of all of the Holders of the Bonds then Outstanding.

**Governing Law.** The terms and provisions of the Trust Agreement shall be governed by the laws of the State.

## **INSTALLMENT SALE AGREEMENTS**

### **2012 INSTALLMENT SALE PAYMENTS**

**Design, Acquisition, Construction and Sale of the 2012 Water Project and 2012 Wastewater Project.** The Authority, under the terms of the respective Installment Sale Agreement, agrees to sell, and sells, the 2012 Water Project and 2012 Wastewater Project, respectively, to the District. The District, under the terms of the respective Installment Sale Agreement, agrees to purchase and purchases, the 2012 Water Project and 2012 Wastewater Project, respectively, from the Authority on the terms and conditions specified in the respective Installment Sale Agreement.

**Purchase Price.** In consideration of the financing of the 2012 Water Project and 2012 Wastewater Project, the respective Purchase Price to be paid by the District to the Authority under each respective Installment Sale Agreement is the sum of the principal amount of the District's obligation under the respective Installment Sale Agreement plus the interest to accrue on the unpaid balance of such principal amount from the Closing Date over the term of the respective Installment Sale Agreement. The interest to accrue on the unpaid balance of such principal amount shall be paid by the District as set forth below and shall constitute interest paid on the principal amount of the District's Purchase Price obligation under each respective Installment Sale Agreement. Interest on the unpaid balance of the principal amount of the respective Purchase Price shall accrue, from the Closing Date, on the principal component of each 2012 Installment Sale Payment at the rates set forth in this Official Statement calculated on the basis of a 360-day year comprised of twelve 30-day months.

**Payment of 2012 Installment Sale Payments.** The District shall pay the Authority the respective Purchase Price, without offset or deduction of any kind, by paying the principal installments of the respective 2012 Installment Sale Payments, which principal installments shall be due annually first day of the calendar month immediately preceding each January 15, together with interest installments of the respective 2012 Installment Sale Payments, which interest installments shall be due semiannually first day of the calendar month immediately preceding on each January 15 and July 15, commencing July 15, 2012. Each 2012 Installment Sale Payment shall be payable on and shall be required to be deposited with the Trustee on or before the fifteenth day of the calendar month immediately preceding its due date.

The obligation of the District to pay the respective Purchase Price by paying the respective 2012 Installment Sale Payments is, subject to the respective Installment Sale Agreement as summarized herein under

the caption “INSTALLMENT SALE AGREEMENTS – MISCELLANEOUS – Liability of District Limited to Net Revenues,” absolute and unconditional, and until such time as the respective 2012 Installment Sale Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – DISCHARGE OF OBLIGATIONS – Discharge of Obligations”), the District will not discontinue or suspend the respective 2012 Installment Sale Payments required to be paid by it under this section when due, whether or not the Water System or Wastewater System, as applicable, or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

In order to carry out and effectuate the obligation of the District contained in the respective Installment Sale Agreement to pay the respective Purchase Price by paying the respective 2012 Installment Sale Payments, the District agrees and covenants that all Water Revenues received by it shall be deposited when and as received in trust in the “Camrosa Water District Utility Revenue Fund” which fund has been established by the District and is, under the terms of the respective Installment Sale Agreement, pledged and a security interest is granted therein and which fund the District agrees and covenants to maintain so long as the respective 2012 Installment Sale Payments, Bonds, Certificates or Contracts remain unpaid, and all money on deposit in the Utility Revenue Fund shall be applied and used only as provided in the respective Installment Sale Agreement. The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Utility Revenue Fund as they become due and payable, and money on deposit in the Utility Revenue Fund shall be set aside and deposited by the District at the following times in the following order of priority:

(a) *2012 Installment Sale Payment Fund Deposit.* On or before the last Business Day of each month, beginning in March, 2012 the District shall, from the money in the Utility Revenue Fund, deposit in the respective 2012 Installment Sale Payment Fund, which fund is, under the terms of the respective Installment Sale Agreement, established and which fund the District agrees and covenants to maintain so long as the respective 2012 Installment Sale Payments remain unpaid, a sum equal to one-sixth (1/6) of the amount of interest becoming due under the respective Installment Sale Agreement on the next succeeding January 15 or July 15, as the case may be (except that the deposits for March, 2012 through June, 2012 shall be equal to one-fourth (1/4) of the amount of interest due on July 15, 2012). On or before the last Business Day of each month, beginning in March, 2012, the District shall, from the money in the Utility Revenue Fund, deposit in the respective 2012 Installment Sale Payment Fund, one-twelfth (1/12) of the amount of principal becoming due under the respective Installment Sale Agreement on the next succeeding January 15 (except that the deposits for March, 2012 through December, 2012 shall be equal to one-tenth (1/10) of the amount of principal due on January 15, 2013). Notwithstanding the foregoing, no such deposit need be made if the amount available and contained in the respective 2012 Installment Sale Payment Fund is equal to the amount of interest becoming due under the respective Installment Sale Agreement on the next succeeding January 15 or July 15, as the case may be, plus the amount of principal becoming due under the respective Installment Sale Agreement on the next succeeding January 15. All money on deposit in the respective 2012 Installment Sale Payment Fund on the first day of the calendar month immediately preceding each 2012 Installment Sale Payment Date shall be paid to and deposited with the Trustee for deposit in the Revenue Fund, as defined in, created under and in accordance with the terms of, the Trust Agreement.

(b) *Reserve Account Deposit.* On or before the last Business Day of each month, beginning in July 2012, the District shall, from the remaining money on deposit in the Utility Revenue Fund, deposit with the Treasurer of the Authority for deposit with the Trustee in the Reserve Account the unpaid portion of that sum, if any, specified to the District by the Trustee pursuant to the Trust Agreement as summarized herein in paragraph (c)(4) under the caption “TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund” as the amount required under the Installment Sale Agreement to replenish the Reserve Account. All money in the Reserve Account shall be used and withdrawn by the Trustee for the purposes specified in the Trust Agreement as summarized herein under the caption

“TRUST AGREEMENT – REVENUES – Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.”

(c) *Surplus.* On or before the last Business Day of each month, moneys on deposit in the Utility Revenue Fund not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

(d) *Water Rate Stabilization Fund Deposit.* The District has established and maintains a separate fund known as the “Water Rate Stabilization Fund.” From time to time the District may deposit in the Water Rate Stabilization Fund from remaining Water Revenues such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred fifty (150) days following the end of such Fiscal Year. The District may withdraw amounts from the Water Rate Stabilization Fund only for inclusion in Water Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred fifty (150) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Water Rate Stabilization Fund shall either be retained therein or withdrawn therefrom and accounted for as Water Revenues. Notwithstanding the foregoing, no deposit of Water Revenues to the Water Rate Stabilization Fund may be made to the extent such Water Revenues were included in an Independent Financial Consultant’s report submitted in accordance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations” and withdrawal of the Water Revenues to be deposited in the Water Rate Stabilization Fund from Water Revenues employed in rendering said Independent Financial Consultant’s report would cause noncompliance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations.”

(e) *Water Parity Bonds and Contracts.* Notwithstanding the foregoing, deposits made pursuant to this section shall not be made in preference or priority over other Parity Bonds or Contracts attributable to the Water System.

(f) *Wastewater Rate Stabilization Fund Deposit.* The District has established and maintains a separate fund known as the “Wastewater Rate Stabilization Fund.” From time to time the District may deposit in the Wastewater Rate Stabilization Fund from remaining Wastewater Revenues such amounts as the District shall determine, provided that deposits for each Fiscal Year may be made until (but not after) one hundred fifty (150) days following the end of such Fiscal Year. The District may withdraw amounts from the Wastewater Rate Stabilization Fund only for inclusion in Wastewater Revenues for any Fiscal Year, such withdrawals to be made until (but not after) one hundred fifty (150) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Wastewater Rate Stabilization Fund shall either be retained therein or withdrawn therefrom and accounted for as Wastewater Revenues. Notwithstanding the foregoing, no deposit of Wastewater Revenues to the Wastewater Rate Stabilization Fund may be made to the extent such Wastewater Revenues were included in an Independent Financial Consultant’s report submitted in accordance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations” and withdrawal of the Wastewater Revenues to be deposited in the Wastewater Rate Stabilization Fund from Wastewater Revenues employed in rendering said Independent Financial Consultant’s report would cause noncompliance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Additional Parity Obligations.”

(g) *Wastewater Parity Bonds and Contracts.* Notwithstanding the foregoing, deposits made pursuant to this section shall not be made in preference or priority over other Parity Bonds or Contracts attributable to the Wastewater System.

**Pledge of Net Water Revenues.** All Net Water Revenues are, under the terms of the respective Installment Sale Agreement, irrevocably pledged to the payment of the 2012 Installment Sale Payments thereunder; provided, that out of the Net Water Revenues there may be apportioned such sums for such

purposes as are permitted by the applicable Installments Sale Agreement. This pledge shall constitute a lien on the Net Water Revenues for the payment of such 2012 Installment Sale Payments, principal of and interest on all Bonds and Installment Sale Payments on all other Contracts in accordance with the terms thereof.

**Pledge of Net Wastewater Revenues.** All Net Wastewater Revenues are, under the terms of the respective Installment Sale Agreement, irrevocably pledged to the payment of the 2012 Installment Sale Payments thereunder; provided, that out of the Net Wastewater Revenues there may be apportioned such sums for such purposes as are permitted by the applicable Installments Sale Agreement. This pledge shall constitute a lien on the Net Wastewater Revenues for the payment of such 2012 Installment Sale Payments, principal of and interest on all Bonds and Installment Sale Payments on all other Contracts in accordance with the terms thereof.

### **ADDITIONAL PARITY OBLIGATIONS**

**Additional Parity Obligations.** The District may at any time issue Additional Parity Obligations (a System specific term); provided:

(i) The Net Water Revenues or Net Wastewater Revenues, as applicable, for the applicable Calculation Period, as evidenced by both a calculation prepared by the District and a special report prepared by a District Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least 115% of the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Parity Obligations; or

(ii) estimated Net Water Revenues or Net Wastewater Revenues, as applicable, for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of the proposed Additional Parity Obligations is at least equal to 1.15 times the Debt Service (a System specific term) scheduled to be paid in each Fiscal Year on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Parity Obligations, as evidenced by both a calculation prepared by the District and a special report prepared by a District Independent Certified Public Accountant or Independent Financial Consultant on such calculation on file with the District.

For purposes of the computations to be made as described in subparagraph (ii) above, the estimated Net Water Revenues or Net Wastewater Revenues, as applicable:

(1) may take into account any increases in rates and charges which relate to the Water System or Wastewater System, as applicable, and which have been approved by the Board of Directors of the District, and shall take into account any reduction in such rates and charges which have been approved by the Board of Directors of the District, which will be effective during the Fiscal Year for which such estimate is made; provided that an increase may only be taken into account if such increase takes effect during the Fiscal Years contemplated by subparagraph (ii); and

(2) may take into account an allowance for any estimated increase in such Net Water Revenues or Net Wastewater Revenues, as applicable, from any revenue producing additions or improvements to or extensions of the Water System or Wastewater System, as applicable, to be made with the proceeds of such Additional Parity Obligations or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net Water Revenues or Net Wastewater Revenues, as applicable, to be derived from such additions, improvements and extensions during the Fiscal Years contemplated by subparagraph (ii); and

(3) for the Fiscal Years contemplated by subparagraph (ii) Maintenance and Operation Costs shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such Additional Parity Obligations, but adjusted if deemed necessary by the District or an Independent Financial Consultant, as applicable, for any increased Maintenance and Operations Costs which are, in the judgment of the District or an Independent Financial Consultant, as applicable, essential to maintaining and

operating the Water System or Wastewater System, as applicable, and which will occur during the Fiscal Years contemplated by subparagraph (ii).

Notwithstanding the foregoing, Additional Parity Obligations (a System specific term) issued to refund Parity Obligations may be delivered without satisfying the conditions set forth above if Debt Service (a System specific term) in each Fiscal Year after the Fiscal Year in which such Additional Parity Obligations are issued is not greater than the Debt Service would have been in each such Fiscal Year prior to the issuance of such Additional Parity Obligations.

## **COVENANTS OF THE DISTRICT**

**Compliance With Installment Sale Agreements and Trust Agreement.** The District will punctually pay the respective 2012 Installment Sale Payments in strict conformity with the terms of the respective Installment Sale Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the respective Installment Sale Agreement required to be observed and performed by it, and will not terminate the respective 2012 Installment Sale Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2012 Water Project and 2012 Wastewater Project or the Water System or Wastewater System, as applicable, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the respective Installment Sale Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the respective Installment Sale Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including Acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to Installment Sale Agreements and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the District to repay the costs of the acquisition and construction of the 2012 Water Project and 2012 Wastewater Project and the costs and expenses incidental thereto paid by the Authority pursuant to, and in accordance with, and as authorized under law and the respective Installment Sale Agreement.

**Use of Proceeds of Authority Bonds.** The Authority and the District agree that the proceeds of the Authority Bonds will be used by the Authority to refund that portion of the outstanding Series 2001 Bonds which financed or refinanced a portion of the costs of certain capital improvements to the Wastewater System and Water System of the District and to pay the incidental costs and expenses related thereto as provided in the respective Installment Sale Agreement and in the Trust Agreement.

**Against Encumbrances.** The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the Water System and Wastewater System and will keep the Water System and Wastewater System free of any and all liens against any portion of the Water System and Wastewater System. In the event any such lien attaches to or is filed against any portion of the Water System or Wastewater System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment. The District will, to the maximum extent permitted by law, indemnify and hold the Authority and the Trustee harmless from, and defend each of them against, any claim, demand,

loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Water System and Wastewater System.

The District may pledge, encumber or otherwise secure its obligations with the Net Water Revenues or Net Wastewater Revenues, as applicable, provided, that in all instances any such pledge, lien or security is wholly subordinate and junior to the obligations of the District contained in the respective Installment Sale Agreement, particularly in accordance with the respective Installment Sale Agreement as summarized herein under the caption "INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Payment of 2012 Installment Sale Payments."

**Against Sale or Other Disposition of Property.** The District will not sell, lease or otherwise dispose of the Water System or Wastewater System or any part thereof essential to the proper operation of the Water System and Wastewater System or to the maintenance of the Net Water Revenues or Net Wastewater Revenues, as applicable, and will not enter into any agreement or lease which would impair the operation of the Water System or Wastewater System or any part thereof necessary to secure adequate Net Water Revenues or Net Wastewater Revenues, as applicable, for the payment of the respective 2012 Installment Sale Payments, or which would otherwise impair the rights of the Authority with respect to the Net Water Revenues or Net Wastewater Revenues, as applicable, or the operation of the Water System or Wastewater System; provided, that any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Water System or Wastewater System, or any material or equipment that has become worn out, may be sold if such sale will not reduce the Net Water Revenues or Net Wastewater Revenues, as applicable, below the requirements to be maintained in accordance with the respective Installment Sale Agreement as summarized herein under the caption "INSTALLMENT SALE AGREEMENTS – COVENANTS OF THE DISTRICT – Amount of Rates, Fees and Charges."

**Tax Covenants.** (a) The District will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the respective Installment Sale Agreement or any other funds of the District or take or omit to take any action that would cause such obligation to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or a "federal-guaranteed obligation" within the meaning of Section 149(b) of the Code or a "private activity bond" as described in Section 141 of the Code. The District will not allow 10% or more of the proceeds of the obligations provided in the respective Installment Sale Agreement to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations provided in the respective Installment Sale Agreement to any nongovernmental units. To that end, so long as the respective 2012 Installment Sale Payments are unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the respective Installment Sale Agreement. In the event that at any time the District is of the opinion that for purposes of this paragraph (a) it is necessary to restrict or to limit the yield on the investment of any moneys held by the District under the respective 2012 Installment Sale Agreement or by the Trustee under the Trust Agreement, the District shall so instruct the Trustee in writing and the trustee, as appropriate, shall act in accordance with such instructions.

The District and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest on the Authority Bonds will not be included in gross income of the registered owners thereof for federal income tax purposes and will take no action that would result in such interest being so included.

(b) The District will pay or cause to be paid the Rebate Requirement as defined and provided in the Tax Certificate. This covenant shall survive payment in full of the 2012 Installment Sale Payments. The District shall establish and maintain a fund separate from any other fund established and maintained under the respective Installment Sale Agreement designated the Rebate Fund. The District will cause the Rebate Requirement to be deposited in the Rebate Fund as provided in the Tax Certificate (which is incorporated in the respective Installment Sale Agreement by reference). Subject to the provisions of this section, moneys held in the Rebate Fund are, under the terms of the respective Installment Sale Agreement, pledged to secure payments to the United States of America. The District, the Authority and the owners of the Authority Bonds will have no rights in or claim to such moneys. The District will invest all amounts held in the Rebate Fund in Permitted Investments (as defined in the Trust Agreement).

Upon receipt of the rebate instructions required by the Tax Certificate, the District shall remit part or all of the balance held in the Rebate Fund to the United States of America as so directed. In addition, if such rebate instructions so direct, the District will deposit, or cause to be deposited moneys into or transfer or cause to be transferred moneys out of the Rebate Fund from or into such accounts or funds as the rebate instructions direct.

(c) Notwithstanding any provision of the respective Installment Sale Agreement, if the District receives an Opinion of Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes on the Authority Bonds, the District may conclusively rely on such opinion in complying with the requirements of this section, and the covenants under the respective Installment Sale Agreement shall be deemed to be modified to that extent.

**Maintenance and Operation of the Water System and Wastewater System; Budgets.** The District will maintain and preserve the Water System and Wastewater System in good repair and working order at all times and will operate the Water System and Wastewater System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Not later than August 1 of each year, the District will adopt and, if requested, make available to the Authority and the Trustee, a budget approved by the Board Members of the District setting forth the estimated Maintenance and Operation Costs and the estimated payments for Debt Service (a System specific term) for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year and, if requested, such amended budget shall be made available to the Authority and the Trustee. In addition, not later than December 31 of each year the District shall provide the Trustee with a Certificate of the District demonstrating that, based upon such approved budget Net Water Revenues and Net Wastewater Revenues, as applicable, for such Fiscal Year will equal or exceed 115% of the applicable respective Debt Service for such Fiscal Year.

**Payment of Claims.** The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Water Revenues and Net Wastewater Revenues or any part thereof prior or superior to the obligation to make the respective 2012 Installment Sale Payments as provided in the related Installment Sale Agreement or which might impair the security of the related 2012 Installment Sale Payments.

**Insurance.** The District will procure and maintain such insurance relating to the Water System and Wastewater System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with systems similar to the Water System and Wastewater System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with systems similar to the Water System and Wastewater System and is, in the opinion of an Insurance Consultant, financially sound. All policies of insurance required to be maintained in the respective Installment Sale Agreement shall provide that the Authority and the Trustee shall be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

The District shall promptly advise the Authority and the Trustee in writing if any change in the insurance coverage occurs and provide a report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water System and Wastewater System, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

**Accounting Records and Financial Statements.**

(a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System and Wastewater System, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with the Authority and the Trustee annually within 180 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2012) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon and a special report prepared by the District Independent Certified Public Accountant who examined such financial statements stating that nothing came to his attention in connection with such examination that the district was not in compliance with any of the financial agreements or financial covenants contained in the respective Installment Sale Agreement.

**Protection of Security and Rights of the Authority and the Trustee.** The District will preserve and protect the security of the respective Installment Sale Agreement and the rights of the Authority and the Trustee to the respective 2012 Installment Sale Payments under the respective Installment Sale Agreement and will warrant and defend such rights against all claims and demands of all persons.

**Payment of Taxes and Compliance With Governmental Regulations.** The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System and Wastewater System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System and Wastewater System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

**Amount of Rates, Fees and Charges.** The District will at all times fix, prescribe and collect rates, fees and charges for the Water Service that are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Net Water Revenues during each Fiscal Year of the District equal to one 115% of the Debt Service (a System specific term) for such Fiscal Year. The District may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this section.

The District will at all times fix, prescribe and collect rates, fees and charges for the Wastewater Service that are reasonably fair and nondiscriminatory and which will be at least sufficient to yield Net Wastewater Revenues during each Fiscal Year of the District equal to one 115% of the Debt Service (a System specific term) for such Fiscal Year. The District may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Wastewater Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this section.

**Collection of Rates, Fees and Charges.** The District will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Water System or Wastewater System to pay the rates, fees and charges applicable to the Water Service or Wastewater Service to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The District will not permit any part of the Water System or Wastewater System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof); provided, that the District may without charge use the Water Service or Wastewater Service.

**Eminent Domain and Insurance Proceeds.** If all or any part of the Water System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to

the Water System, the Net Proceeds thereof, at the option of the District, shall be applied either to the prepayment of the respective 2012 Installment Sale Payments as provided in accordance with the respective Installment Sale Agreement as summarized herein under the caption "INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Prepayment of 2012 Installment Sale Payments" or shall be used to substitute other components for the condemned or destroyed components of the Water System.

If all or any part of the Wastewater System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Wastewater System, the Net Proceeds thereof, at the option of the District, shall be applied either to the prepayment of the respective 2012 Installment Sale Payments as provided in accordance with the respective Installment Sale Agreement as summarized herein under the caption "INSTALLMENT SALE AGREEMENTS – 2012 INSTALLMENT SALE PAYMENTS – Prepayment of 2012 Installment Sale Payments" or shall be used to substitute other components for the condemned or destroyed components of the Wastewater System.

**Continuing Disclosure.** The District, under the terms of the respective Installment Sale Agreement, covenants and agrees that it will enter into and comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Installment Sale Agreements, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default under the respective Installment Sale Agreement; however, the Trustee shall at the written request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount in Outstanding Series 2012 Authority Bonds, or any Holder or Beneficial Owner 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 section. For purposes of this section, "Beneficial Owner" means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2012 Authority Bonds (including persons holding Series 2012 Authority Bonds through nominees, depositories or other intermediaries).

#### **EVENTS OF DEFAULT AND REMEDIES**

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

- (1) if default shall be made in the due and punctual payment of the respective 2012 Installment Sale Payment when and as the same shall become due and payable;
- (2) if default shall be made by the District in the performance of any of the agreements or covenants contained in the respective Installment Sale Agreement required to be performed by it, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Authority or the Trustee; provided that such default shall not constitute an Event of Default under the respective Installment Sale Agreement if the District shall commence to cure such default within such 30 day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time;
- (3) if an event of default shall occur with respect to any Bonds, Certificates or Contracts; or
- (4) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (1) above, the Trustee shall, and for any other such Event of Default the Trustee may, by notice in writing to the District given not later than three (3) Business Days after it receives notice of an Event of Default or direction to proceed under an Event of Default, declare the entire principal amount of the unpaid 2012 Installment Sale Payments under the applicable Installment Sale Agreement and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the respective Installment Sale Agreement to the contrary notwithstanding. This subsection is subject to the condition, however, that if at any time after the entire principal amount of the unpaid 2012 Installment Sale Payments under the applicable Installment Sale Agreement and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the District shall deposit with the Trustee a sum sufficient to pay the unpaid principal amount of the respective 2012 Installment Sale Payments under the applicable Installment Sale Agreement due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid principal amounts of the respective 2012 Installment Sale Payments under the applicable Installment Sale Agreement if paid in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the entire principal amount of the unpaid 2012 Installment Sale Payments under the applicable Installment Sale Agreement and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

**Application of Net Water Revenues and Water Rate Stabilization Fund Upon Acceleration.** All Net Water Revenues and all moneys on deposit in the Water Rate Stabilization Fund upon the date of the declaration of acceleration by the Trustee as provided in accordance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE AGREEMENTS – EVENTS OF DEFAULT AND REMEDIES – Events of Default and Acceleration of Principal” and all Net Water Revenues thereafter received shall be applied in the following order --

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the applicable Installment Sale Agreement, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, *pari passu* to the payment of the interest then due and payable on the entire principal amount of the unpaid 2012 Installment Sale Payments, Bonds, Certificates and Contracts (each as defined in the respective Installment Sale Agreement), and, if the amount available shall not be sufficient to pay in full all such interest then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference; and

Third, *pari passu* to the payment of the unpaid principal amount of the 2012 Installment Sale Payments, Bonds, Certificates and Contracts (each as defined in the respective Installment Sale Agreement), which has become due and payable, whether on the original due date or upon acceleration, with interest on the overdue principal and interest amounts of such principal amounts at the rate or rates of interest then applicable to such principal amounts if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to such principal amounts on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference.

**Application of Net Wastewater Revenues and Wastewater Rate Stabilization Fund Upon Acceleration.** All Net Wastewater Revenues and all moneys on deposit in the Wastewater Rate Stabilization Fund upon the date of the declaration of acceleration by the Trustee as provided in accordance with the respective Installment Sale Agreement as summarized herein under the caption “INSTALLMENT SALE

AGREEMENTS – EVENTS OF DEFAULT AND REMEDIES – Events of Default and Acceleration of Principal” and all Net Wastewater Revenues thereafter received shall be applied in the following order --

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the applicable Installment Sale Agreement, including reasonable compensation to its agents, accountants and counsel and including any indemnification expenses;

Second, *pari passu* to the payment of the interest then due and payable on the entire principal amount of the unpaid 2012 Installment Sale Payments, Bonds, Certificates and Contracts (each as defined in the respective Installment Sale Agreement), and, if the amount available shall not be sufficient to pay in full all such interest then due and payable, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference; and

Third, *pari passu* to the payment of the unpaid principal amount of the 2012 Installment Sale Payments, Bonds, Certificates and Contracts (each as defined in the respective Installment Sale Agreement), which has become due and payable, whether on the original due date or upon acceleration, with interest on the overdue principal and interest amounts of such principal amounts at the rate or rates of interest then applicable to such principal amounts if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to such principal amounts on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference.

**Other Remedies.** The Trustee shall have the right --

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any board member, officer or employee thereof, and to compel the District or any such board member, officer or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained in the respective Installment Sale Agreement;

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

(c) by suit in equity upon the happening of an Event of Default to require the District and its board members, officers and employees to account as the trustee of an express trust.

**Non-Waiver.** Nothing in the Installment Sale Agreements shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the 2012 Installment Sale Payments from the Net Water Revenues or Net Wastewater Revenues, as applicable to the Trustee at the respective due dates, or shall affect or impair the right of the Trustee, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the respective Installment Sale Agreement.

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

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

**Remedies Not Exclusive.** No remedy conferred under the respective Installment Sale Agreement upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be

cumulative and shall be in addition to every other remedy given under the respective Installment Sale Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

## **DISCHARGE OF OBLIGATIONS**

### **Discharge of Obligations.**

(a) If the District shall pay or cause to be paid all the respective 2012 Installment Sale Payments at the times and in the manner provided in the respective Installment Sale Agreement, the right, title and interest of the Authority in the respective Installment Sale Agreement and the obligations of the District under the respective Installment Sale Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied.

(b) Any unpaid principal installment of the respective 2012 Installment Sale Payments shall on its payment date be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the District makes payment of such 2012 Installment Sale Payments in the manner provided in the respective Installment Sale Agreement.

(c) All or any portion of unpaid principal installments of the respective 2012 Installment Sale Payments shall, prior to their payment dates be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (i) notice is provided by the District to the Trustee as required by the Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Permitted Investments (as that term is defined in the Trust Agreement) of the type described in clause (1) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book entry form on the books of the District or the Treasury of the United States of America) or tax-exempt obligations of a state or a political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 2012 Installment Sale Payments or such portions thereof on and prior to their payment dates, and (iii) an opinion of nationally recognized bond counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest on the Authority Bonds to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all 2012 Installment Sale Payments as provided in this section, and payment of all fees and expenses of the Trustee, the Trustee, upon request of the District, shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and the Authority and shall execute and deliver to the District and the Authority all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the respective 2012 Installment Sale Agreement, and the Trustee shall pay over and deliver to the District, as an overpayment of 2012 Installment Sale Payments, all such money or investments held by it pursuant to the respective Installment Sale Agreement other than such money and such investments as are required for the payment of the respective 2012 Installment Sale Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the respective 2012 Installment Sale Payments and shall be applied by the Trustee pursuant to the Trust Agreement.

## **MISCELLANEOUS**

**Liability of District Limited to Net Revenues.** Notwithstanding anything contained in the Installment Sale Agreements, the District shall not be required to advance any moneys derived from any source of income other than the Net Water Revenues or Net Wastewater Revenues, as applicable, for the payment of the respective 2012 Installment Sale Payments or for the performance of any agreements or covenants required to be performed by it contained in the respective Installment Sale Agreement. The District may, however,

advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the respective 2012 Installment Sale Payments is a special obligation of the District payable solely from the Net Water Revenues or Net Wastewater Revenues, as applicable, as provided in the respective Installment Sale Agreement, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

**Benefits of Installment Sale Agreements Limited to Parties.** Nothing contained in either Installment Sale Agreement, expressed or implied, is intended to give to any person other than the Authority or the District or the Trustee any right, remedy or claim under or pursuant to the respective Installment Sale Agreement, and any agreement or covenant required in the respective Installment Sale Agreement to be performed by or on behalf of the Authority or the District or the Trustee shall be for the sole and exclusive benefit of the other party.

**Successor Is Deemed Included in all References to Predecessor.** Whenever either the Authority or the District or the Trustee is named or referred to in the respective Installment Sale Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority or the District or the Trustee, and all agreements and covenants required, under the terms of the respective Installment Sale Agreement, to be performed by or on behalf of the Authority or the District or the Trustee shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

**Waiver of Personal Liability.** No board member, officer or employee of the District shall be individually or personally liable for the payment of the respective 2012 Installment Sale Payment, but nothing contained in the respective Installment Sale Agreement shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or under the terms of the respective Installment Sale Agreement.

**Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required, under the terms of the respective Installment Sale Agreement, to be performed by or on the part of the Authority or the District shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the respective Installment Sale Agreement.

**Assignment.** Each 2012 Installment Sale Agreement and any rights under such Installment Sale Agreement shall be assigned by the Authority to the Trustee as provided in the Trust Agreement; to which assignment the District, under the terms of the respective Installment Sale Agreement, expressly acknowledges and consents.

**Net Contract.** Each 2012 Installment Sale Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term of the respective Installment Sale Agreement the respective 2012 Installment Sale Payments and all other payments required under the respective Installment Sale Agreement, free of any deductions and without abatement, diminution or set-off whatsoever.

**Governing Law.** Each 2012 Installment Sale Agreement shall be construed and governed in accordance with the laws of the State of California.

**Indemnification.** The District shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Authority and its directors, officers and employees and the Trustee and its directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the respective 2012 Installment Sale Agreement, refunding of that portion of the outstanding Series 2001

Bonds which financed or refinanced a portion of the costs of certain capital improvements to the Wastewater System or Water System of the District and each portion thereof or any accident in connection with the operation, use, condition or possession of the 2012 Water Project and 2012 Wastewater Project or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the District or the Authority; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising under this section shall continue in full force and effect notwithstanding the full payment of all obligations under the respective Installment Sale Agreement or the termination of the respective Installment Sale Agreement for any reason. The District agrees not to withhold or abate any portion of the payments required pursuant to the respective Installment Sale Agreement by reason of any defects, malfunctions, breakdowns or infirmities of the capital facilities financed or refinanced with proceeds of the Series 2001 Bonds. The District and the Authority mutually agree to promptly give notice to each other of any claim or liability, under the terms of the respective Installment Sale Agreement, indemnified against following either's learning thereof.

Amounts payable as a result of the indemnification provided for in this section are limited to Net Water Revenues or Net Wastewater Revenues, as applicable.

**Funds.** Any fund required to be established and maintained in the respective Installment Sale Agreement by the District may be established and maintained in the accounting records of the District either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Authority Bonds and the rights of the owners of such bonds.

**Effective Date.** Each 2012 Installment Sale Agreement shall become effective upon its execution and delivery, and shall terminate when the respective Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made pursuant to the respective Installment Sale Agreement as summarized herein under the caption "INSTALLMENT SALE AGREEMENTS – DISCHARGE OF OBLIGATIONS."

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**APPENDIX B**

**AUDIT REPORTS, MANAGEMENT DISCUSSION AND ANALYSIS AND  
FINANCIAL STATEMENTS, JUNE 30, 2011 AND 2010**

# **CAMROSA WATER DISTRICT**

## **Audit Reports, Management Discussion and Analysis and Financial Statements June 30, 2011 and 2010**

**Prepared by:**

### **POINDEXTER AND COMPANY**

**Certified Public Accountant**

*Post office Box 4488  
Ventura, California 93007  
(805) 659-3600*

**Tax Planning & Consultation · Tax Return Preparation · Business Consultation  
Financial Statement Preparation · Auditing Services**

# Camrosa Water District

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Camrosa Water District  
**Governing Board of Directors**  
As of June 30, 2011

<u>Name</u>	<u>Office</u>
-------------	---------------

**Board Members:**

Al E. Fox	President
Eugene F. West	Vice President
Jeffrey C. Brown	Director
Timothy H. Hoag	Director
Terry L. Foreman	Director

**Management:**

Frank Royer	General Manager
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# POINDEXTER & COMPANY

Certified Public Accountant

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To the Board of Directors of  
Camrosa Water District

## INDEPENDENT AUDITOR'S REPORT

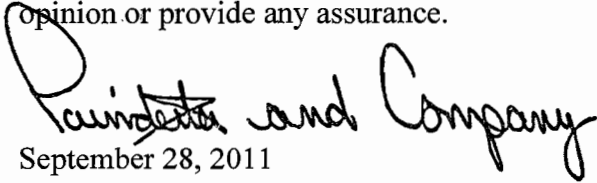
I have audited the accompanying financial statements of Camrosa Water District as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Camrosa Water District as of June 30, 2011 and 2010, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with Government Auditing Standards, I have also issued my report dated September 28, 2011, on my consideration of the Camrosa Water District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages three through ten and the funded status of the pension benefit plan on page twenty-seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

P. R. Rindler and Company

September 28, 2011

**Board of Directors**

Al E. Fox  
Division 1  
Jeffrey C. Brown  
Division 2  
Timothy H. Hoag  
Division 3  
Eugene F. West  
Division 4  
Terry L. Foreman  
Division 5

**General Manager**

Frank E. Royer

**Management's Discussion and Analysis  
(For the year ended June 30, 2011)**

Our discussion and analysis of the Camrosa Water District (the "District") financial performance during the period provides an overview of the District's operational activities that had an impact on the financial performance of the District. Please review it in conjunction with the transmittal letter and the District's basic financial statements that begin on page 12.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements with accompanying notes. The Statement of Net Assets reflects the solubility of the District at the end of the period and provides a comparison to assets and liabilities as they existed at the end of the prior fiscal year. The Statement of Revenues and Expenses and Changes in Net Assets provides the results from operations for the fiscal year, compares those results to the prior period and shows how the operating results for the current and prior period affected the net assets of the District for those periods respectively.

One way of evaluating the District's financial health is through the Statement of Net Assets. One can think of the District's *net assets*, the difference between assets (what the District owns) and liabilities (what the District owes)... as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. One must be cautious, however, to consider other non-financial factors such as changes in the District's jurisdiction, the status of capital projects, and the level of continuing constituent support to assess the overall health of the District.

*Method of Accounting:* The District uses a single enterprise fund for accounting and reporting the results of all operations. The statements referenced above include all assets and liabilities using an accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of current year's revenues and expenses are taken into account regardless of when cash is received or paid.

*Notes to Financial Statements:* The notes that follow the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17-26 of this report.

## **District as a Whole**

The District is operated and reported as a single enterprise fund; there are no subsidiary fund statements presented as part of this report. The operating results reported in the accompanying financial statements reflect the total performance of the District as a whole.

## **Background**

Fiscal Year 2010-11 brought much needed rainfall to California after the preceding hydrologic drought experienced in 2008 and 2009. The rainfall and runoff from snow pack in the Sierra's have filled California's reservoirs. In March 2011, the Governor declared a formal end to the drought. The Department of Water Resources (DWR) announced to water contractors an expected delivery of 80% of State Water Project (SWP) water orders due to improved reservoir levels. However, California still faces a "regulatory" drought as result of a judicial decision to restrict pumping by the SWP from the San Francisco Bay Delta for regulatory reasons. Allocation reductions are expected into the future from DWR until the pumping restrictions are removed.

Operating performance for any given year is driven by changing weather patterns that dominate water use decisions by consumers. Water demand correlates well to rainfall patterns, particularly to the amount of effective rain received, because most of the water used is applied to outdoor irrigation needs. Effective rain is the amount of rain needed to benefit the evapotranspiration requirements of plants. Rain, which falls after the plant's root zone has sufficient moisture, adds no benefit. Such is the case in years when rain is received in a very few heavy downpours. Minor amounts of rain, which do not penetrate the root zone, likewise are of no benefit. Ideally rain will come in smaller amounts, enough to penetrate the root zone and will be spaced several days apart throughout the rainy season

The average total annual rainfall in the District is 15.08 inches. The average annual effective rainfall is 7.36 inches. In the previous audit report, it was noted that the year ending June 30, 2010 (the comparison year in this report) had below normal rainfall, with a total rainfall for the year of 14.07 inches but with effective rainfall of 11.24 – well above normal. The annual rainfall during the fiscal year ending June 30, 2011, was above normal with total rainfall for the year of 20.10 inches; and the effective rainfall was even higher than the comparison year at 12.51 inches or 1.7 times the annual average. The significant rainfall dampened the irrigation demand during the fiscal year and resulted in below normal water sales for the period.

In addition to the above normal rainfall, the District's potable water sales were further reduced through customers' voluntary conservation in response to reduced allocations of imported water from Metropolitan Water District and through the expansion of the Non-Potable Distribution system to meet irrigation needs. Over the long term, the

District intends to broaden its use of local and imported water resources through planned expansion of the Non-Potable water system. The expansion will further dampen future fluctuations in imported water supply.

### Asset Analysis

The following is a summary of the *Statement of Net Assets* of the District and the change in comparison to the prior fiscal year.

	<i>Net Assets (in millions)</i>	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current Assets	\$ 9.2	\$8.3
Restricted Assets	1.4	2.2
Capital Assets (net of Depreciation)	47.7	48.2
Other Assets	0.7	0.8
<u>Total Assets</u>	<u>\$59.0</u>	<u>\$59.5</u>
<u>Liabilities</u>		
Long Term Debt	\$ 8.1	\$9.1
Other Liabilities	3.1	3.0
<u>Total Liabilities</u>	<u>\$11.2</u>	<u>\$12.1</u>
<u>Net Assets</u>		
Capital invested in Capital Assets (Net of Related Debt)	\$38.7	\$38.3
Unrestricted Net Assets	9.1	9.1
<u>Total Net Assets</u>	<u>\$47.8</u>	<u>\$47.4</u>

Current Assets increased by \$0.9 million and are primarily attributable to reclassification of \$0.8 million Restricted Assets to Current Assets. The reclassification occurred as result of the Trustee releasing the debt service reserves related to the maturity of the 1995 Certificates of Participation.

Total Assets (net of Depreciation) declined slightly by \$0.5 million as a result of several actions. During the audit year the District performed a comprehensive Capital Asset Inventory of the District's assets. The inventory identified the need to dispose of assets of \$0.07 million (Net of Depreciation), and the need to adjust the asset depreciation schedules in the amount of \$0.19 million, for a total combined decrease in assets of \$0.26 million.

In addition to the asset adjustments described above, construction was completed on projects totaling \$1.3 million which were capitalized during the audit year and new capital projects increased Construction in Progress by \$0.5 million for total increases of \$1.8 million. Significant projects that were completed during the period included Sewer Service to Terra Bella Lane, PS #3 MCC Replacement & Meter Rehabilitation, rip-rap replacement around the storage ponds to prevent erosion, installation of Variable Frequency Controllers at the Water Reclamation Facility, rehabilitation of manholes in the sewer collection system, and the continuation of meter replacements necessary to implement the Automated Meter Reading (AMR) system.

Depreciation expense in the amount of \$2.1 million was accrued.

Long Term Debt reflects a decrease of \$1.0 million in the District's annual debt service payments related to final payment of the 1995 Certificates of Participation and the 2001 Revenue Bonds.

Overall, Total Net Assets increased by \$0.44 million. The following is a summary of the *Statement of Activities and Changes in Net Assets* of the District with a comparison to the prior fiscal year.

	<i>Changes in Net Assets (in millions)</i>	
	2011	2010
Beginning Balance	\$47.42	\$46.00
Effects of Change in Accounting Estimate	(0.19)	0.00
Capital Contributions	0.00	0.66
Water Capital Fees	0.02	0.12
Sewer Capital Fees	0.08	0.00
Grants	0.00	0.00
Operating Results	0.53	0.64
<u>Total Net Assets</u>	<u>\$47.86</u>	<u>\$47.42</u>

Effects of Change in Accounting Estimate reflect net depreciation adjustments of the District's Assets' life of (\$0.19), as a result of the comprehensive Capital Asset Inventory performed in accordance with the recently adopted Fixed Asset Policy.

Contributions from water and sewer capital fees vary widely from year to year. Fiscal Year ending June 30, 2011 continues to reflect a slowdown in housing development with a minimal contribution of capital connection fees.

## Revenue/Expense Analysis

Revenue generated from operations produces more than 96% of total revenue while non-operating revenues such as taxes, interest revenue and miscellaneous administrative fees make up the remainder. The following summary of revenues by source is provided for the past two fiscal years:

	<u>Total Revenues (in millions)</u>	
	<u>2011</u>	<u>2010</u>
<u>Operating Revenue</u>		
Water Revenue	\$10.3	\$10.0
Meter Revenue	1.6	1.6
Sewer Revenue	2.7	2.5
Other	0.1	0.1
<u>Total Operating Revenue</u>	<u>\$14.7</u>	<u>\$14.2</u>
<u>Non-Operating Revenue</u>		
Property Taxes	\$ .5	\$ .5
Interest Income	.1	.1
Miscellaneous Revenue	.1	.1
<u>Total Non-Operating Revenue</u>	<u>\$ .7</u>	<u>\$ .7</u>

Water Revenue for the Fiscal Year ending June 30, 2010 reflects a cool and wet weather pattern. A second consecutive cool wet weather season was experienced for the Fiscal Year ending 30, 2011, and is reflected in the Water Revenue.

Water rates are comprised of a commodity (usage) charge and a fixed meter service fee. In January 2011, the water commodity (usage) fees were increased, on average 4.3%, through the District's Pass-Through Ordinance to offset the increased wholesale cost of imported water.

Sewer rates are a fixed fee billed monthly. The sewer rates were increased on July 2010, by approximately 4%, to reflect higher operating costs and increasingly more stringent regulatory standards. The fees include a Capital Replacement Contribution to rebuild reserves for future planned infrastructure replacements.

All other miscellaneous revenues have remained relatively constant over the period.

Expenses for Water Purchases and Utilities represent 63% of total direct operating expenses while Salaries, Wages and Benefits account for 21%. All other expenses

account for less than 16% of the total expenses for the period. The following summary of expenses by category is provided for the past two fiscal years:

	<u>Total Expenses (in millions)</u>	
<u>Operating Expenses</u>	<u>2011</u>	<u>2010</u>
Water Purchases	\$6.6	\$6.4
Salaries, Wages & Benefits	2.6	2.4
Utilities	1.1	1.1
Other	2.0	1.9
<u>Direct Operating Expenses</u>	<u>\$12.3</u>	<u>\$11.8</u>
Depreciation	2.1	2.0
<u>Total Operating Expenses</u>	<u>\$14.4</u>	<u>\$13.8</u>
 <u>Non-Operating Expenses</u>		
Loss on Disposal of Capital Assets	.1	.0
Interest Expense	.4	.5
<u>Total Non-Operating Expense</u>	<u>\$.5</u>	<u>\$.5</u>

Even though the wet cool season and conservation efforts of our customers resulted in below normal demand, the total cost of water purchases has increased by \$0.2 million because the wholesale cost of imported water for Fiscal Year 2011 increased by \$43 per acre-foot. For Fiscal Year 2011, 6,069 acre-feet of imported water was purchased in comparison with 6,785 acre-feet in Fiscal Year 2010.

Salaries, Wages & Benefits increased by \$0.2 million as a result of filling vacant positions and the successful recruitment of a District Planner. Minor increases in the cost in medical benefits were also realized.

Loss from Disposal of Capital Assets of \$0.1 million is related to the comprehensive Capital Asset inventory performed and reflects the removal of partially depreciated assets which were inappropriately classified as Capital Assets.

## ACTUAL RESULTS VS. BUDGET

The Board of Directors adopts an annual budget in June of each year for the following Fiscal Year beginning on July 1<sup>st</sup>. Performance compared to the budget is monitored throughout the year. The following is a summary of actual results for the audit year in comparison to the budget:

	<i>Budget to actual (in millions)</i>	
	<u>Actual</u>	<u>Budget</u>
Total Operating Revenue	\$14.7	\$17.4
Less: Operating Expenses (water/power)	(7.7)	(9.7)
Salaries & Benefits	(2.6)	(2.7)
Supplies & Services	<u>(2.0)</u>	<u>(2.4)</u>
Net Operating Revenue	\$2.4	\$2.6
 Non-Operating Revenue		
Property Taxes	\$ 0.5	\$ 0.5
Interest Income	0.1	0.1
Miscellaneous Income	<u>0.1</u>	<u>0</u>
Total Non-Operating Revenue	\$0.7	\$0.6
 Non-Operating Expenses		
Loss on Disposal of Capital Assets	(0.1)	
Interest Expense	<u>(0.4)</u>	<u>(0.8)</u>
 <u>Net Income before Depreciation and Capital Contributions</u>	\$ 2.6	\$ 2.4
Less: Depreciation	(2.1)	
Plus: Grants	0.0	
Capital Fees	0.1	
Capital Contributions	<u>0.0</u>	
Change in Equity	\$ 0.6	

Operating Revenue and Expenses are generally budgeted upon the assumption that normal weather patterns will be experienced during the budget year. Total Operating Revenue for the period was under budget as a result of a second consecutive cool and wet weather season. The decrease in imported state water purchases is a direct result of decreased water consumption and that decrease is reflected in the Actual Operating Expenses compared to the Budget. Net operating revenue for the period was \$0.2 million under budget.

The District anticipated a bond issuance in Fiscal Year 2010-11 and the related increase in interest expense was included in the budget. However, interest expense for the period is actually \$0.4 million and reflects the delay of the bond issuance into Fiscal Year 2011-12. The decrease in interest expense offset the reduction in revenue and resulted in a favorable increase in net income of approximately \$0.2 million.

Property taxes received during Fiscal Year 2011 were equal to the budget, and represent the second fiscal year without the property tax shift to the State of California as permitted by California Proposition 1A. Interest income was equal to budget and continues to remain at historical lows as a result of low interest earnings held with the Local Agencies Investment Fund (LAIF).

### **Capital Assets and Debt Administration**

*Capital Assets:* Total Capital Assets increased \$1.8 million (before depreciation) during the period reflecting primarily a net increase in the value of the Water Plant, Sanitation Plant and Construction in Progress.

Several capital replacement projects in Fiscal Year 2011-2012 will improve the long-term reliability of the potable distribution system and wastewater system. Final completion for the expansion of the disinfection process at the Water Reclamation Facility will allow the plant to be re-rated from 1.5 MGD to 2.25 MGD to accommodate future growth through ultimate build out.

Progress is being made in installing a new Automated Meter Reading (AMR) system in the eastern area of the Camrosa Office to improve potable water accounting and reduce the cost and manpower necessary to conduct monthly meter reading. To date, over 4,400 AMR units have been installed. The AMR system interfaces directly with the newly installed customer information system to significantly improve customer relations management at the District.

It has been a key priority of the District during the past several years to develop its own diverse portfolio of water resources to provide reliable and affordable water services to its customers. An Integrated Facilities Master Plan (FMP) is near completion and a Capital Financial Plan has been drafted to identify funding required to implement the capital projects identified in the FMP. A nexus study will be conducted for water capital fees to ensure established fee structures for anticipated new developments will fully fund any increased system capacity requirements to meet new demand. The Capital Financial Plan will also ensure that sound operating ratios are attained, reserves remain healthy and the goal of maintaining a debt service ratio of 1.45:1 is achieved.

*Debt Administration:* At year-end, the District had the following long-term debt obligation:

Revenue Bonds (interest rates 2.00% to 4.75%)	\$ 8,085,000
Ford Motor Credit	<u>9,638</u>
Total Long Term Debt (net of current - \$1,002,883)	\$ 8,094,638

The final installment on the 1995 Certificates of Participation was made in Fiscal Year 2010-2011 and the series has been retired. The purchase a new vehicle for the District was the only new long-term debt incurred during the period.

It is anticipated that there will be a debt issuance during Fiscal Year 2011-2012 to help finance construction of projects identified in the FMP. The Capital Financing Plan outlines the time-cost and phasing of the projects in the FMP. The District anticipates approximately \$8.9 million in projects will be funded by a new debt issuance which is scheduled to be completed in the Fall of 2011.

*Economic Factors:* The Fiscal Year 2011-2012 Budget has been prepared with the anticipation of a normal weather pattern throughout the year. Sewer rates were increased by 4.8% on July 2011 to reflect higher operating costs per Equivalent Dwelling Unit and additional, more modest, increases are anticipated to continue to meet increasing operational costs and to rebuild reserves in anticipation of future plant replacement projects.

The cost of imported water will increase by approximately 9% on January 1, 2012 and it is anticipated that the District will pass that increased cost through to its retail water customers.

Housing starts are expected to remain very low and capital fees will not increase appreciably in the near future.

#### *Requests for Information*

This financial report is designed to provide a general overview for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 7385 Santa Rosa Road, Camarillo, CA 93012.

Camrosa Water District  
**Statements of Net Assets**  
June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 6,654,626	\$ 5,961,901
Receivables:		
Customer - Net of Allowance for Doubtful Accounts of \$7,500 and \$45,827 at June 30, 2011 and 2010, respectively	2,332,375	2,168,021
Interest	8,029	33,689
Property Taxes	41,087	41,087
Grants and Other Reimbursements	5,817	7,726
Prepaid Expenses and Other Current Assets	113,717	68,867
Current Portion of Notes Receivable	56,521	53,503
Total Current Assets	9,212,172	8,334,794
<b>RESTRICTED ASSETS</b>		
Cash and Cash Equivalents	1,439,365	2,222,961
<b>CAPITAL ASSETS</b>		
Land	867,874	867,874
Water Plant	48,533,925	47,262,538
Sanitation Plant	29,287,966	28,948,327
Buildings and Equipment	2,264,143	3,142,255
Construction in Progress	1,548,836	1,092,822
Accumulated Depreciation	(34,812,429)	(33,097,851)
Net Capital Assets	47,690,315	48,215,965
Notes Receivable, Net of Current Portion	613,711	670,232
Debt Issuance, Net of Accumulated Amortization of \$110,557 and \$98,868 at June 30, 2011 and 2010, respectively	99,842	111,531
<b>Total Assets</b>	<b>\$ 59,055,405</b>	<b>\$ 59,555,483</b>

Camrosa Water District  
**Statements of Net Assets**  
June 30, 2011 and 2010

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,405,381	\$ 1,269,105
Wages, Benefits and Payroll Taxes Payable	34,986	25,645
Compensated Absences	263,257	247,466
Other Liabilities	37,172	103,397
Unearned Capital Fees	101,412	175,000
Current Portion of Long Term Debts	1,002,883	950,000
Total Current Liabilities	2,845,091	2,770,613
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Accrued Interest Payable	184,747	205,610
Customer Surety Deposits	67,113	68,113
Total Current Liabilities Payable from Restricted Assets	251,860	273,723
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt	8,094,638	9,085,000
Other	2,389	2,654
Total Long-Term Liabilities	8,097,027	9,087,654
Total Liabilities	11,193,978	12,131,990
<b>NET ASSETS</b>		
Net Assets - Invested in Capital Assets, Net of Related Debt	38,692,636	38,292,496
Unrestricted Net Assets	9,168,791	9,130,997
Total Net Assets	47,861,427	47,423,493
<b>Total Liabilities and Net Assets</b>	<b>\$ 59,055,405</b>	<b>\$ 59,555,483</b>

**Camrosa Water District**  
**Statements of Activities and Changes in Net Assets**  
For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Water Revenue	\$ 10,314,160	\$ 10,012,122
Sewer Revenue	2,715,834	2,480,174
Meter Revenue	1,628,392	1,628,975
Other	50,750	58,618
Total Operating Revenues	14,709,136	14,179,889
<b>OPERATING EXPENSES</b>		
Water Purchases	6,595,635	6,429,288
Salaries and Wages	1,892,086	1,793,409
Employee Benefits	719,646	648,625
Utilities	1,103,378	1,075,069
Communications	39,394	42,423
Outside Contracts	801,008	707,781
Professional Services	182,412	279,017
Repairs and Maintenance	489,433	267,935
Supplies	222,810	239,102
Legal Services	26,086	24,263
Dues and Subscriptions	37,185	31,680
Conference and Travel	18,318	16,358
Safety and Training	19,024	11,872
Board	44,215	38,523
Bad Debt	5,085	11,219
Fees and Charges	59,440	71,103
Insurance	71,984	67,140
Depreciation	2,065,661	2,044,529
Total Operating Expenses	14,392,800	13,799,336
Operating Gain/(Loss)	316,336	380,553
<b>NON-OPERATING REVENUES AND (EXPENSES)</b>		
Property Taxes	506,299	526,832
Interest Income	104,910	126,871
Miscellaneous Revenue	122,676	91,617
Loss on Disposal of Capital Assets	(73,920)	
Interest Expense	(444,148)	(488,170)
Total Non-Operating Revenues and (Expenses)	215,817	257,150
Net Gain/(Loss) Before Capital Contributions and Grants	532,153	637,703
Capital Contributions	92,737	780,358
Change in Net Assets	624,890	1,418,061
Net Assets at Beginning of Year	47,423,493	46,005,432
Effects of a Change in Accounting Estimate	(186,956)	
Net Assets at Beginning of Year - Restated	47,236,537	46,005,432
Net Assets at End of Year	\$ 47,861,427	\$ 47,423,493

**Camrosa Water District**  
**Statements of Cash Flows**

For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Cash Received from User Charges	\$ 14,426,344	\$ 14,152,698
Cash Payments to Employees	(1,866,954)	(1,774,321)
Cash Payments for Operating Expenses	(10,362,191)	(10,101,808)
Net Cash Provided/(Used) By Operating Activities	2,197,199	2,276,569
<b>Cash Flows From Noncapital Financing Activities</b>		
Property Taxes	506,299	485,746
Surety Deposits	(1,000)	63,543
Net Cash Provided/(Used) By Non-Capital Financing Activities	505,299	549,289
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(1,788,366)	(1,106,595)
Proceeds from Water and Sewer Capital Fees	92,737	121,000
Repayment of Grants and Other Reimbursements	1,909	237,526
Principal on Capital Note Receivable	53,503	50,646
Repayment of Long-Term Debt	(952,811)	(900,000)
Interest Payments	(453,587)	(495,947)
Net Cash Provided/(Used) By Capital and Related Financing Activities	(3,046,615)	(2,093,370)
<b>Cash Flows From Investing Activities</b>		
Interest Income	130,570	130,969
Miscellaneous Revenue	122,676	91,616
Net Cash Provided/(Used) by Investing Activities	253,246	222,585
Net Increase/(Decrease) in Cash and Cash Equivalents	(90,871)	955,073
Cash and Cash Equivalents at Beginning of Year	8,184,862	7,229,789
Cash and Cash Equivalents at End of Year	\$ 8,093,991	\$ 8,184,862

**Camrosa Water District  
Statements of Cash Flows**

For the Years Ended June 30, 2011 and 2010

	2011	2010
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 316,336	\$ 380,553
Adjustments to Reconcile Operating Net Income to Net Cash Provided/(Used) by Operating Activities		
Depreciation	2,068,472	2,044,529
(Increase)/Decrease in Operating Assets:		
Customer Receivable	(164,354)	(27,575)
Other Current Assets	(44,850)	384
Increase/(Decrease) in Operating Liabilities:		
Accounts Payable	136,276	(235,380)
Wages, Benefits and Payroll Taxes Payable	9,341	15,656
Compensated Absences	15,791	3,432
Other Current Liabilities	(66,225)	94,970
Unearned Capital Fees	(73,588)	
	<u>\$ 2,197,199</u>	<u>\$ 2,276,569</u>
 <b>Non-Cash Capital and Related Financing Activities</b>		
Vehicle acquired through issuance of a note payable	<u>\$ 15,332</u>	<u>\$ 0</u>

Camrosa Water District  
Notes to Financial Statements

June 30, 2011 and 2010

**Note 1 - ORGANIZATION OF THE DISTRICT**

***Nature of the Entity:***

The Camrosa Water District (the "District"), a special district of the State of California, was created in 1962 under authority of the County Water District Law of the State of California. The District is primarily engaged in the activities of selling and delivering water and collecting and treating sewage. The District's service area includes portions of the cities of Camarillo, Thousand Oaks and Moorpark, and an unincorporated portion of the County of Ventura. The District's five-member Board of Directors comprises representatives from five geographical divisions of the District who are elected at large.

***Reporting Entity:***

The District's reporting entity includes all significant operation and revenue sources which the District Board of Directors exercises oversight responsibility and determined under the criteria established by the National Council on Governmental Accounting Statement No. 3, as adopted by Financial Accounting Standards Board. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service.

The accompanying financial statements include the accounts of the District and Camrosa Water District Public Facilities Corporation (the "Corporation"), which was formed for the purpose of rendering financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing, selling or otherwise conveying public improvements and property of any kind, through the issuance of certificates of participation or similar security arrangements. The Corporation is governed and controlled entirely by the District.

**Note 2 - MANAGEMENT'S REVIEW**

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 28, 2011, the date that the financial statements were available to be issued.

Camrosa Water District  
Notes to Financial Statements

June 30, 2011 and 2010

**Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting:***

The Camrosa Water District is accounted for as an enterprise fund in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the expenses, including depreciation, of providing goods or services to the general public are recovered through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, and other purposes. Because the Camrosa Water District is accounted for as an enterprise fund, the District uses the economic resources measurement focus and the accrual basis of accounting is used for financial statement reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The net assets are segregated into invested in capital and unrestricted net assets.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing goods and delivering goods in connection with a enterprise fund's principal ongoing operations. The principal operating revenues of the District 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 non-operating revenues and expenses.

***Fund Financial Statements:***

The fund financial statements provide information about the District's proprietary fund. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District maintains one proprietary fund.

Camrosa Water District  
Notes to Financial Statements

June 30, 2011 and 2010

**Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***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.

Accruals for purchases of nonpotable water amounted to approximately \$409,247 at June 30, 2011 and \$512,842 at June 30, 2010 and required use of significant estimates. The District believes the techniques and assumptions used in establishing this liability are appropriate.

***Cash and Cash Equivalents:***

For purposes of the statements of cash flows, the District considers all highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents. The District considers funds in the Local Agency Investment Fund (including restricted assets) to be cash equivalents.

***Investments:***

Statutes authorize the District to invest in obligations of the U.S. Treasury, U.S. agencies, bankers' acceptances, repurchase and reverse repurchase agreements, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, certificates of deposit, money market checking accounts and the LAIF.

***Capital Assets:***

Capital assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Water Plant	20-40 years
Sanitation Plant	20-50 years
Buildings and Equipment	3-40 years

***Compensated Absences:***

The District accrues the estimated obligations for vacation and sick pay as they are earned.

***Debt Issuance Costs:***

Debt issuance costs are amortized on a straight-line basis over the term of the related debt.

***Water Revenue:***

Water revenues resulting from customer usage occurring after the last meter reading date and prior to the end of the year are estimated and accrued. Unbilled receivables for these items totaled approximately \$882,740 at June 30, 2011 and \$894,107 at June 30, 2010.

Camrosa Water District  
Notes to Financial Statements

June 30, 2011 and 2010

**Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Contributed Capital:***

Deeded facilities received from developers are recorded at estimated construction cost. Such facilities are recorded as District assets and are depreciated in accordance with established policies for similar capital assets.

The District requires prepayment of water and sewer capital fees prior to commencement of construction of residential and commercial developments. Such fees, which are nonrefundable, are recorded as contributed capital upon receipt.

***Net Assets:***

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations or other governments, or through constitutional provisions, or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

***Income Taxes:***

The District is exempt from income taxes.

***Budgetary Process:***

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- Formal Budgetary integration is employed as a management control device during the year.
- The Board approved the total budget and is authorized to make any budget adjustments during the year.
- Unused appropriations lapse at the end of the year.

**Camrosa Water District**  
**Notes to Financial Statements**

June 30, 2011 and 2010

**Note 4 - DEPOSITS AND INVESTMENTS**

The District's carrying value of deposits was (\$32,867), and \$283,646 at June 30, 2011 and 2010, respectively. The corresponding bank balance was \$280,076, and \$480,844, respectively. Of the bank balance, \$280,076 and \$437,548 was covered by Federal deposit insurance at June 30, 2011 and 2010, respectively. The California Government Code requires all financial institutions to secure a local governmental agency's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits, and collateral is considered to be held in the name of the District. All cash held by financial institutions is, therefore, entirely insured or collateralized.

At June 30, 2011, the District had the following investments (all of which are considered Cash Equivalents):

	Fair Value	Carrying Value
State of California - Local Agency Investment Fund ("LAIF")	\$ 6,687,217	\$ 6,687,217
Money Market Accounts	704,586	704,586
Bond Investment Accounts		
Time Certificates of Deposit		
U.S. Treasury Bills	734,728	734,780
<b>TOTAL</b>	<b>\$ 8,126,531</b>	<b>\$ 8,126,583</b>

At June 30, 2010, the District had the following investments (all of which are considered Cash Equivalents):

	Fair Value	Carrying Value
State of California - Local Agency Investment Fund ("LAIF")	\$ 5,677,980	\$ 5,677,980
Money Market Accounts	721,019	721,019
Bond Investment Accounts	769,900	769,900
Time Certificates of Deposit	250,000	250,000
U.S. Treasury Bills	483,129	482,042
<b>TOTAL</b>	<b>\$ 7,902,028</b>	<b>\$ 7,900,941</b>

The State of California Local Agency Investment Fund ("LAIF") is an external investment pool. The investment pool does not have a credit rating. LAIF operates in accordance with appropriate state laws and regulations. The share value of the District's investment in LAIF is \$6,687,217 and \$5,677,980 at June 30, 2011 and 2010, respectively.

**Camrosa Water District**  
**Notes to Financial Statements**

June 30, 2011 and 2010

**Note 4 - DEPOSITS AND INVESTMENTS (Continued)**

Under the provision of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government or its agencies
- Certificates of Deposit (or Time Deposits placed with commercial banks and or/savings & loan companies)
- State of California Local Agency Investment Fund (State Pool) Deposits
- Interest bearing demand accounts with commercial banks and/or savings & loan companies

The money market accounts, bond investment accounts, time certificates of deposit and the U.S. Treasury bills are held with U.S. Bank, a subsidiary of U.S. Bancorp. U.S. Bancorp has a Standard & Poor's credit rating of A+. The bond investment is comprised of debt indentures with HSBC Bank USA, N.A. (formerly Republic National Bank) and are subject to an Investment Agreement for the maintenance of reserve funds for the District's revenue bonds and certificates of participation. The credit rating of the debt indenture with HSBC Bank USA, N.A. was AA at June 30, 2011.

To address credit risk, the District invests its funds in accordance with state statutes and the District's investment policy. The criteria for selecting investments are, in order of priority, (1) safety – consideration of the potential loss of principal or interest, (2) liquidity – the ability to have funds available at any moment in time with a minimal potential loss and (3) yield – the optimum rate of return while preserving capital.

**Note 5 - NOTES RECEIVABLE**

Notes receivable consisted of the following at June 30:

	2011	2010
Capital Facilities Fee contract receivable from California State University, Channel Islands (CSUCI) whereby CSUCI agrees to pay the District \$7,664.41 per month which includes interest at 5.5% for the construction of the recycled water system on the premises of CSUCI.	\$ 670,232	\$ 723,735
Less Current Portion	(56,521)	(53,503)
<b>NET NOTES RECEIVABLE</b>	<b>\$ 613,711</b>	<b>\$ 670,232</b>

Camrosa Water District  
**Notes to Financial Statements**  
 June 30, 2011 and 2010

**Note 6 - LONG-TERM DEBT**

Long-term debt consists of the following debt issues:

	<u>Issuance Date</u>	<u>Security</u>	<u>Interest Rates</u>	<u>Balance 6/30/10</u>	<u>Proceeds/Retirement</u>	<u>Balance 6/30/11</u>	<u>Current</u>	<u>Long-Term</u>
2001 Refunding Bonds	12/1/01	Revenues	2.0%-4.75%	\$ 9,500,000	\$ (415,000)	\$ 9,085,000	\$ 1,000,000	\$ 8,085,000
1995 Certificates of Participation	6/15/95	Revenues	5.0%-6.0%	535,000	(535,000)	0	0	0
Note Payable	8/28/10	Vehicle	5.44%	0	12,521	12,521	2,883	9,638
				<u>\$ 10,035,000</u>	<u>\$ (937,479)</u>	<u>\$ 9,097,521</u>	<u>\$ 1,002,883</u>	<u>\$ 8,094,638</u>

<u>Fiscal Year Ending June 30,</u>	<u>2001 Revenue Bonds</u>	<u>Note Payable</u>	<u>Total Interest</u>	<u>Total</u>
2012	\$ 1,000,000	\$ 2,883	\$ 408,188	\$ 1,411,071
2013	855,000	3,044	367,527	1,225,571
2014	890,000	3,213	331,448	1,224,661
2015	940,000	3,381	274,489	1,217,870
2016	980,000		209,986	1,189,986
2017-2038	<u>4,420,000</u>		<u>595,045</u>	<u>5,015,045</u>
	<u>\$ 9,085,000</u>	<u>\$ 12,521</u>	<u>\$ 2,186,683</u>	<u>\$ 11,284,204</u>

**Note 7 - DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Generally, all eligible employees may elect to defer receipt of a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 1999, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, which requires that all assets and income of Internal Revenue Code Section 457 deferred compensation be placed in trust for the exclusive benefit of participants and their beneficiaries. The District has placed \$1,216,639 and \$949,115 in trust at June 30, 2011 and 2010, respectively. The adoption of GASB 32 had no impact on fund balance.

**Note 8 - DEFINED BENEFIT PENSION PLAN**

**Plan Description:**

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

**Camrosa Water District  
Notes to Financial Statements**

June 30, 2011 and 2010

**Note 8 - DEFINED BENEFIT PENSION PLAN (Continued)**

***Funding Policy:***

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the rate for fiscal year 2010/2011 is 12.562% for all employees of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

***Annual Pension Cost:***

For fiscal year 2009/2010, the District's annual pension cost of \$341,390 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.55% to 14.45% that vary depending on age, service and type of employment, (c) 3.25% per year cost-of-living adjustments, and (d) 3.00% inflation. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a two to five year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 18 years.

***Three year Trend Information for PERS***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2009	\$ 318,181	100%	\$ 0
6/30/2010	\$ 323,792	100%	\$ 0
6/30/2011	\$ 341,390	100%	\$ 0

**Note 9 - PROFIT SHARING PLAN**

The District has a profit sharing plan, pursuant to Section 401 of the Internal Revenue Code, for non-exempt employees. Annual contributions are made at the sole discretion of the District. Contributions were \$12,553 and \$16,160 in 2011 and 2010, respectively.

The plan includes a provision under Section 414(h)(2) whereby each plan participant that is classified as management is required to contribute 5% of salary. The District has elected to pay for the mandatory contributions which totaled \$57,861 and \$51,209 for 2011 and 2010, respectively.

Camrosa Water District  
Notes to Financial Statements

June 30, 2011 and 2010

**Note 10 - JOINT POWERS INSURANCE AUTHORITY/RISK MANAGEMENT**

Beginning in fiscal year 1994, the District participates in the property, liability and workers' compensation program organized by the Association of California Water Agencies/Joint Powers Insurance Authority ("JPIA"). JPIA is a Joint Powers Authority ("JPA") created to provide a self-insurance program to water agencies in the State of California. The JPA is not a component unit of the District for financial reporting purposes, as explained below.

JPIA provides liability, property and workers' compensation insurance for the District, which is one of approximately 291 participating water districts and agencies, for losses in excess of the member districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. JPIA is governed by a board composed of members from participating districts. The board controls the operations of JPIA, including selection of management and approval of operating budgets, independent of any influence by the members from beyond their representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in JPIA.

Based on audited financial statements, at September 30, 2010 JPIA had total assets, liabilities and fund balance of \$127,965,405, \$83,963,531 and \$44,001,874, respectively. The District paid premiums of \$109,177 and \$104,078 to JPIA for property, general liability and workers' compensation insurance during the years ended June 30, 2011 and 2010 respectively.

The District's specified self-insurance retention level under the JPIA program is \$5,000 per claim. Assistance with disposition of claims within the self-insured retentions is provided through the JPIA. The District had no outstanding claims under JPIA and no liabilities relating to outstanding claims (including estimates for incurred but not reported claims) were recorded as of June 30, 2011 and 2010.

Camrosa Water District  
**Notes to Financial Statements**

June 30, 2011 and 2010

**Note 11 - LEASE**

The District has various leases for vehicles and equipment that are classified as operating leases. Total rent expense for all operating leases for 2011 and 2010 were \$66,788 and \$64,389, respectively.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

Year Ending June 30:	
2012	\$ 66,788
2013	66,788
2014	54,792
2015	15,309
2016	<u>6,464</u>
Total	<u>\$ 210,141</u>

**Note 12 - PRIOR PERIOD ADJUSTMENT**

The prior years net assets have been restated to reflect a change in accounting estimate resulting in a decrease in the net assets of \$186,956. The change in accounting estimate relates to changes in the estimated useful lives of depreciable capital assets.

Camrosa Water District  
**Required Supplementary Information**  
For the Years Ended June 30, 2011 and 2010

**FUNDING STATUS OF THE PENSION PLAN**

In 2003, mandatory pooling was required for plans with less than 100 active members. At the time of joining the pool, a Side Fund was created to account for the difference between the funded status of the pool and the funded status of the District's plan. The District's negative Side Fund will cause the required employer contribution rate to be increase by the amortization of the Side Fund. The data on the Side Fund is as follows:

<u>Valuation Date</u>	<u>Side Fund</u>	<u>Amortization Period</u>
6/30/2007	\$ (693,624)	20 years
6/30/2008	\$ (696,110)	19 years
6/30/2009	\$ (697,122)	18 years

# POINDEXTER & COMPANY

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Certified Public Accountant

To the Board of Directors of  
Camrosa Water District

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

I have audited the financial statements of the Camrosa Water District, as of and for the years ended June 30, 2011 and 2010, and have issued my report thereon dated September 28, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered the Camrosa Water District's, internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

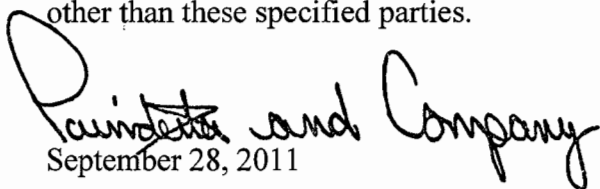
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.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

Compliance and Other Matters

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

I noted certain other matters that I reported to management of Camrosa Water District in a separate letter (management letter) dated September 28, 2011.

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

  
September 28, 2011

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## APPENDIX C

### PROPOSED FORM OF BOND COUNSEL OPINION

*Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:*

[Date of Delivery]

Camrosa Water District Financing Authority  
Camarillo, California

Camrosa Water District Financing Authority  
Water and Wastewater Refunding Revenue Bonds, Series 2012  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Camrosa Water District Financing Authority (the "Authority") in connection with the issuance by the Authority of \$7,575,000 aggregate principal amount of Camrosa Water District Financing Authority Water and Wastewater Refunding Revenue Bonds, Series 2012 (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and all laws of the State of California supplemental thereto and the Trust Agreement, dated as of February 1, 2012 (the "Trust Agreement"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the 2012 Water Installment Agreement, dated as of February 1, 2012 (the "Water Installment Agreement"), between the Camrosa Water District (the "District") and the Authority, the 2012 Wastewater Installment Agreement, dated as of February 1, 2012 (the "Wastewater Installment Agreement"), between the District and the Authority, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Authority, the District, the Trustee, and others, opinions of counsel to the Authority, the District and the Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used 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 Authority (and for purposes of the opinion numbered 3 below, 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 referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Water Installment Agreement, the Wastewater Installment Agreement and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Water Installment Agreement, the Wastewater Installment Agreement 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 joint exercise of powers authorities, and special districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Water Installment Agreement, the Wastewater Installment Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge to secure the payment of the principal of and interest on the Bonds of the Revenues and any other amounts (including certain proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.
3. The Water Installment Agreement and the Wastewater Installment Agreement have each been duly executed and delivered by, and each constitutes the valid and binding obligation of, the Authority and the District, respectively.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

**APPENDIX D**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”), dated [Closing Date], is executed and delivered by the Camrosa Water District (the “District”) and Wells Fargo Bank, National Association, as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the Camrosa Water District Financing Authority (the “Authority”) of \$7,575,000 aggregate principal amount of its Water and Wastewater Refunding Revenue Bonds, Series 2012 (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement, dated as of February 1, 2012, by and between the Authority and the Dissemination Agent, as trustee (the “Trust Agreement”).

The District and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement.

This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 2. Definitions.

In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement 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 Agreement.

“Annual Report Date” shall mean the date in each year that is nine (9) months after the end of the District’s fiscal year, the end of which, as of the date of this Disclosure Agreement, is June 30.

“Dissemination Agent” shall mean, initially, Wells Fargo Bank, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent that is so designated in writing by the District and which has filed with the then current Dissemination Agent a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement relating to the Bonds.

“Participating Underwriter” shall mean E. J. De La Rosa & Co., Inc., the original underwriter of the Bonds required to comply with the Rule in connection with the 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.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2013, provide to MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) calendar days prior to each such Annual Report Date, the District shall provide its Annual Report to the Dissemination Agent, if such Dissemination Agent is a different entity than the District. The Annual Report must be submitted in an electronic format as prescribed by MSRB, accompanied by such identifying information as is prescribed by MSRB, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District (which include information regarding the funds and accounts of the District), if any, may be submitted separately from and later than the balance of the Annual Report if they are not available by the applicable Annual Report Date. If the District's fiscal year changes, the District shall provide written notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(b) If the District is unable to provide to MSRB an Annual Report by the date required in subsection (a), the District shall send to MSRB a notice in substantially the form attached hereto as Exhibit A. Such notice must be submitted in an electronic format as prescribed by MSRB, accompanied by such identifying information as prescribed by MSRB.

(c) The Dissemination Agent shall:

(i) provide any Annual Report received by it to MSRB by the date required in subsection (a); and

(ii) file a report with the District and the Trustee (if the Dissemination Agent is other than the Trustee) certifying that the Annual Report has been provided to MSRB pursuant to this Disclosure Agreement, and stating the date the Annual Report was so provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements of the District (which include information regarding the funds and accounts of the District), if any, for the most recent fiscal year of the District then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the District shall be audited by such auditor as shall then be required or permitted by State law or the Trust Agreement. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) An update of the information contained in the following tables under the headings “THE WATER SYSTEM” and “THE WASTEWATER SYSTEM” in the Official Statement for the Bonds, if the information is not included elsewhere in the Annual Report:

Table 6, “Water Deliveries by Class”;

Table 7, “Historic Water Demand/Sources”;

Table 8, “Ten Largest Water Customers”;

Table 9, “Water Rates”;

Table 10, “Monthly Minimum Service Charge”;

Table 14, “Water System Historic Operating Results and Debt Service Coverage”;

Table 16, “Historical Wastewater Connections”;

Table 17, “Historical Wastewater System Usage”;

Table 18, “Ten Largest Wastewater System Users”; and

Table 22, “Wastewater System Historic Operating Results and Debt Service Coverage.”

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority, the District, or related public entities, which are available to the public on MSRB’s Internet web site or filed with the Securities and Exchange Commission. 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 Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on any reserve fund for the Bonds reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;
- (v) substitution of any credit or liquidity providers, or their failure to perform;
- (vi) 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 or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (vii) modifications to the rights of owners of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers for the Bonds;
- (ix) defeasances;
- (x) any release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) any bankruptcy, insolvency, receivership, or similar event of the District [this Listed Event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District];
- (xiii) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon and after the occurrence of a Listed Event listed under subsection (a)(ii), (a)(vii), (a)(viii), (a)(x), (a)(xiii), or (a)(xiv) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws. If the District determines that knowledge of the occurrence of such Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) below.

(c) Upon and after the occurrence of any Listed Event (other than a Listed Event listed under subsection (a)(ii), (a)(vii), (a)(viii), (a)(x), (a)(xiii), or (a)(xiv) above), the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) below.

(d) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with MSRB, with a copy to the Trustee and the Participating Underwriter, not in excess of ten (10) business days after the occurrence of such Listed Event. Such notice must be submitted in an electronic format as prescribed by MSRB, accompanied by such identifying information as prescribed by MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The obligation of the District, the Trustee, and the Dissemination Agent under this Disclosure Agreement 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.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. If at any time there is not any other designated Dissemination Agent, the District shall act as Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived; provided that the following conditions are satisfied:

(a) If the amendment or waiver related to annual or event information to be provided hereunder, it may only be made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature, or status of the District or the type of business conducted thereby.

(b) The undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The proposed amendment or waiver (i) is approved by owners of the Bonds in the manner provided in the Trust Agreement for amendments to such Trust Agreement with the consent of owners of the Bonds or (ii) does not, in the opinion of the District or nationally recognized bond counsel, materially impair the interest of owners of the Bonds.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of the occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any owner of a Bond, Participating Underwriter, or Trustee may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities, and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees, and agents, harmless against any loss, 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) 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 all of the Bonds. The Dissemination Agent shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the District pursuant to this Disclosure Agreement. The District shall pay the reasonable fees and expenses of the Dissemination Agent for its duties hereunder.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter, and owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: [Closing Date]

CAMROSA WATER DISTRICT

\_\_\_\_\_  
Authorized Signatory

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Signatory

**EXHIBIT A**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Camrosa Water District Financing Authority  
Name of Bond Issue: Camrosa Water District Financing Authority Water and Wastewater Refunding Revenue Bonds, Series 2012  
Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Camrosa Water District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated [Closing Date], by and between the District and Wells Fargo Bank, National Association, as dissemination agent. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CAMROSA WATER DISTRICT

By: \_\_\_\_\_  
Authorized Signatory

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272