



SUPPLEMENT TO REMARKETING STATEMENT DATED FEBRUARY 10, 2014

\$56,040,000

**BONDS OF IRVINE RANCH WATER DISTRICT
REFUNDING SERIES 2011A-1**

Except as expressly supplemented hereby, the Remarketing Statement dated February 10, 2014 has not been amended or supplemented.

This Supplement to Remarketing Statement (the "Supplement") supplements the Remarketing Statement dated February 10, 2014 (the "Remarketing Statement") of the Irvine Ranch Water District (the "District") relating to the above-captioned bonds (the "Bonds"). This Supplement provides new information about the Bonds. The Remarketing Statement is on file with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Remarketing Statement.

On February 12, 2014, the Remarketing Agent determined the Index Spread for the Tender Period commencing on February 14, 2014 applicable to the Bonds to be equal to **0.01%**. This determination by the Remarketing Agent is conclusive and binding on the District, the Trustee, the Remarketing Agent and the Owners of the Bonds.

Dated: February 12, 2014

IRVINE RANCH WATER DISTRICT

By: _____ /s/ Robert Jacobson
Treasurer

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On April 15, 2011, Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, Co-Bond Counsel to the District, delivered their respective opinions in connection with the issuance of the Series 2011A-1 Bonds. Such opinions stated that, based on 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 Series 2011A-1 Bonds was excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and was exempt from State of California personal income taxes. Further, the opinions of Co-Bond Counsel stated that interest on the Series 2011A-1 Bonds was not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observed that such interest was included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A-1 Bonds. Co-Bond Counsel have not taken and do not intend to take any action to update such opinions or to determine if interest on the Series 2011A-1 Bonds is presently excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes. See the caption “TAX MATTERS” herein.



\$56,040,000
BONDS OF IRVINE RANCH WATER DISTRICT
REFUNDING SERIES 2011A-1
CUSIP†: 4636324Q9

Date of Initial Delivery: April 15, 2011
Price: 100%

Scheduled Mandatory Tender Date: March 12, 2015
Call Protection Date: September 12, 2014

Due: October 1, 2037

This Remarketing Statement replaces the Remarketing Statement dated February 5, 2013, as supplemented on February 12, 2013, in its entirety.

Pursuant to the provisions of the Indenture of Trust, dated as of April 1, 2011, by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the Series 2011A-1 Bonds, as amended, the District has exercised its option to effect an **Unscheduled Mandatory Tender** of the Series 2011A-1 Bonds on February 14, 2014.

Upon the purchase of the Series 2011A-1 Bonds pursuant to such **Unscheduled Mandatory Tender**, the Series 2011A-1 Bonds: (i) will be remarketed in the **Index Mode** for a Tender Period commencing on February 14, 2014 with the **Scheduled Mandatory Tender Date** on March 12, 2015; and (ii) will bear interest at an **Index Tender Rate** (which is equal to the sum of: (a) the **SIFMA Average Index Rate** calculated for each **Index Rate Accrual Period**; and (b) the applicable **Index Spread** for such **Tender Period**). Promptly after the Remarketing Agent determines the **Index Spread** for the **Tender Period** commencing on February 14, 2014, the District will publish it by supplementing this Remarketing Statement and posting the supplement on the **EMMA** system.

The **Purchase Price** of the tendered Series 2011A-1 Bonds will be paid on February 14, 2014 from moneys held by the Trustee, consisting of immediately available funds on deposit in the Remarketing Proceeds Account, as more fully described herein.

The Series 2011A-1 Bonds were issued by the Irvine Ranch Water District and constitute the consolidated, several general obligations of Improvement District Nos. 113, 125, 213 and 225, which are geographical subdivisions of the District through which the District funds capital improvements. The Series 2011A-1 Bonds are payable from the following sources: (i) Assessment Proceeds of each Improvement District, consisting of *ad valorem* assessments on taxable land, In Lieu Charges and proceeds from the sale of property for the enforcement of delinquent assessments collected from within each Improvement District and applied by the District to pay such Improvement District's Included Amount of the principal, Purchase Price and Redemption Price of, and interest on, all Outstanding Series 2011A-1 Bonds; (ii) Net Revenues of the District, consisting of water, sewer and reclaimed water rates and charges imposed by the District remaining after payment of Operation and Maintenance Expenses; and (iii) certain monies and investment earnings in certain funds and accounts created under the Indenture. See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Pledge of Assessment Proceeds and Revenues.” The obligation of the District to pay the principal, Purchase Price upon the Scheduled Mandatory Tender and Redemption Price of, and interest on, the Series 2011A-1 Bonds from Net Revenues is payable on a parity with certain Parity Obligations described under the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Limitations on Parity and Superior Obligations—Obligations on a Parity with the Series 2011A-1 Bonds.”

See the caption “INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225” and Appendix A under the caption “THE IMPROVEMENT DISTRICTS—Improvement District Nos. 125 and 225” for a discussion of the consolidation of Improvement District Nos. 105 and 250, the Assessment Proceeds of which were pledged to payment of the Series 2011A-1 Bonds at the time of their initial issuance, into Improvement District Nos. 125 and 225, respectively.

The Series 2011A-1 Bonds were issued pursuant to the Indenture for the purposes of: (i) providing a portion of the funds to refund the then-outstanding Bonds of Irvine Ranch Water District, Consolidated Refunding Series 2008B; and (ii) paying costs of issuance with respect to the Series 2011A-1 Bonds.

The Series 2011A-1 Bonds were issued in fully registered form and are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the Series 2011A-1 Bonds will not receive physical certificates representing their beneficial ownership in the Series 2011A-1 Bonds purchased. The principal, Purchase Price and Redemption Price of, and interest on, the Series 2011A-1 Bonds are payable by the Trustee to Cede & Co. and such principal, Purchase Price, Redemption Price and interest payments are to be disbursed to the beneficial owners of the Series 2011A-1 Bonds through their nominees.

While the Series 2011A-1 Bonds are in the **Index Mode**, interest on the Series 2011A-1 Bonds will be payable on the first Business Day of each month. The Series 2011A-1 Bonds will be subject to a **Scheduled Mandatory Tender** on March 12, 2015. The failure of the District to pay the Purchase Price of the Series 2011A-1 Bonds upon any **Scheduled Mandatory Tender** would constitute an **Event of Default** under the Indenture. See the caption “THE SERIES 2011A-1 BONDS—Mandatory Tender for Purchase—Scheduled Mandatory Tender for Purchase.” The Series 2011A-1 Bonds are also subject to mandatory tender on an **Unscheduled Mandatory Tender** Date at the option of the District as described herein. The failure of the District to pay the Purchase Price of the Series 2011A-1 Bonds upon such **Unscheduled Mandatory Tender** would not constitute an **Event of Default** under the Indenture. See the caption “THE SERIES 2011A-1 BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.” While in the **Index Mode**, individual purchases of Series 2011A-1 Bonds will be made in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof.

This Remarketing Statement describes the Series 2011A-1 Bonds while in the Index Mode and for the Tender Period commencing on February 14, 2014 and ending on the Scheduled Mandatory Tender Date set forth above. There are significant differences in the terms of the Series 2011A-1 Bonds while they bear interest in a Mode other than an Index Mode. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds bearing interest in a Mode other than the Index Mode or in another Tender Period. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

This Remarketing Statement describes the Series 2011A-1 Bonds for the Tender Period ending on the Scheduled Mandatory Tender Date set forth above only. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds for any other Tender Period. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information relating to the Series 2011A-1 Bonds during any other Tender Period, but should look solely to the offering document to be used in connection with such Tender Period.

Concurrently with the reoffering of the Series 2011A-1 Bonds, the District anticipates reoffering its Series 2011A-2 Bonds. Owners or prospective owners of the Series 2011A-2 Bonds should not rely on this Remarketing Statement for information relating to the Series 2011A-2 Bonds but should look instead to the most current Remarketing Statement prepared by the District for the Series 2011A-2 Bonds.

The Series 2011A-1 Bonds are subject to optional and mandatory redemption prior to maturity as more fully described under the caption “THE SERIES 2011A-1 BONDS—Redemption of Series 2011A-1 Bonds.”

THE SERIES 2011A-1 BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA OTHER THAN THE DISTRICT AND THE IMPROVEMENT DISTRICTS AS PROVIDED IN THE INDENTURE. NO FUNDS OF THE DISTRICT OR THE IMPROVEMENT DISTRICTS, OTHER THAN THE FUNDS INCLUDED IN THE TRUST ESTATE, ARE LIABLE FOR THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS. EXCEPT AS PROVIDED IN THE INDENTURE WITH RESPECT TO THE TRUST ESTATE, NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS LIABLE FOR OR PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2011A-1 Bonds. Investors are advised to read the entire Remarketing Statement to obtain information essential to the making of an informed investment decision. Capitalized terms have the meanings given such terms in this Remarketing Statement.

Certain legal matters in connection with the reoffering of the Series 2011A-1 Bonds will be passed upon by Orrick, Herrington & Sutcliffe LLP, as Co-Bond Counsel to the District, by Bowie, Arneson, Wiles & Giannone, as Co-Bond Counsel to the District and general counsel to the District, and for the Remarketing Agent by Stradling Yocca Carlson & Rauth, a Professional Corporation. The Series 2011A-1 Bonds are available through the facilities of The Depository Trust Company. Goldman, Sachs & Co. is serving as Remarketing Agent and will remarket the Series 2011A-1 Bonds on February 14, 2014 following their mandatory tender.

Goldman, Sachs & Co.
 Series 2011A-1 Bonds Remarketing Agent

Dated: February 10, 2014

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No dealer, broker, salesperson or other person has been authorized by the District or the Remarketing Agent to give any information or to make any representation other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Remarketing Agent. This Remarketing Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2011A-1 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Remarketing Statement is not to be construed as a contract with the purchasers of the Series 2011A-1 Bonds. Statements contained in this Remarketing Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Statement:

The Remarketing Agent has reviewed the information in this Remarketing 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 Remarketing Agent does not guarantee the accuracy or completeness of such information.

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

IN CONNECTION WITH THIS OFFERING, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011A-1 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN STATEMENTS CONTAINED IN THIS REMARKETING STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND “FORWARD-LOOKING STATEMENTS.” NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “EXPECT,” “INTEND,” “BELIEVE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS REMARKETING STATEMENT. THE PROJECTIONS CONTAINED IN THIS REMARKETING STATEMENT WILL NOT BE UPDATED AS PART OF THE DISTRICT’S CONTINUING DISCLOSURE OBLIGATIONS FOR THE SERIES 2011A-1 BONDS.

THE SERIES 2011A-1 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2011A-1 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains a website. However, the information presented there is not part of this Remarketing Statement and should not be relied upon in making an investment decision with respect to the Series 2011A-1 Bonds.

IRVINE RANCH WATER DISTRICT
Orange County, California

Board of Directors

Steven E. LaMar, *President*
Peer A. Swan, *Vice President*
Douglas J. Reinhart
John B. Withers
Mary Aileen Matheis

Management

Paul A. Cook, *General Manager*
Cheryl Clary, *Executive Director of Finance and Administration*
Robert Jacobson, *Treasurer*
Leslie Bonkowski, *Secretary*

District General Counsel

Bowie, Arneson, Wiles & Giannone
Newport Beach, California

Co-Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Bowie, Arneson, Wiles & Giannone
Newport Beach, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California



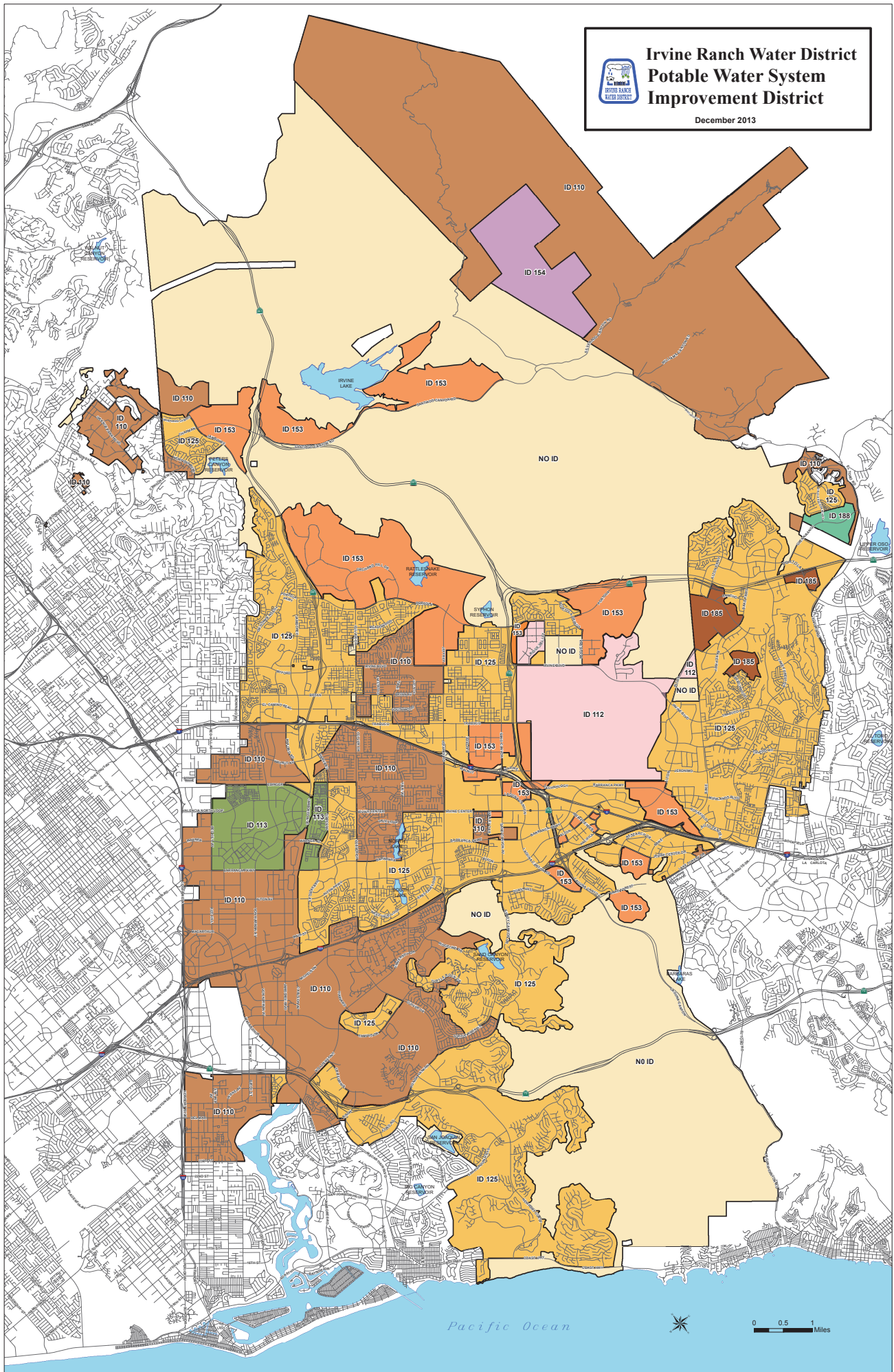
County of Orange

Pacific Ocean



Irvine Ranch Water District Potable Water System Improvement District

December 2013





Irvine Ranch Water District Sewer System Improvement District

December 2013

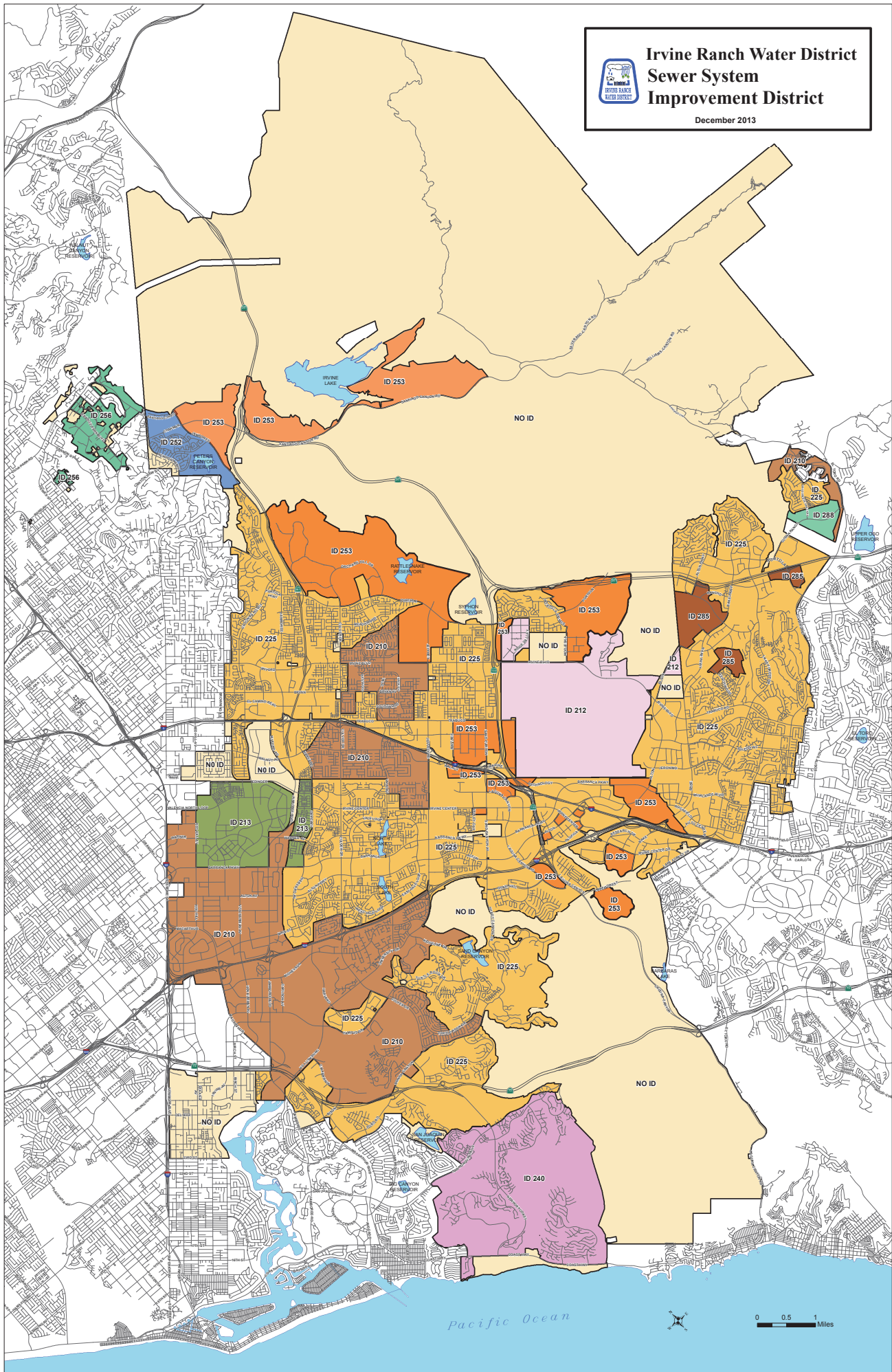


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REMARKETING STATEMENT
\$56,040,000
BONDS OF IRVINE RANCH WATER DISTRICT
REFUNDING SERIES 2011A-1

INTRODUCTION

This Remarketing Statement replaces the Remarketing Statement dated February 5, 2013, as supplemented on February 12, 2013, in its entirety.

Pursuant to the provisions of the Indenture of Trust, dated as of April 1, 2011 (the “Original Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), as amended by the First Supplemental Indenture of Trust, dated as of February 1, 2014 (the “First Supplemental Indenture” and, together with the Original Indenture, the “Indenture”), by and between the District and the Trustee, relating to the Bonds of Irvine Ranch Water District Refunding Series 2011A-1 (the “Series 2011A-1 Bonds”), the Irvine Ranch Water District (the “District”) has exercised its option to effect an Unscheduled Mandatory Tender of the Series 2011A-1 Bonds on February 14, 2014.

Upon the purchase of the Series 2011A-1 Bonds pursuant to such Unscheduled Mandatory Tender, the Series 2011A-1 Bonds: (i) will be remarketed in the Index Mode for a Tender Period commencing on February 14, 2014 with the Scheduled Mandatory Tender Date on March 12, 2015; and (ii) will bear interest at an Index Tender Rate (which is equal to the sum of: (a) the SIFMA Average Index Rate calculated for each Index Rate Accrual Period; and (b) the applicable Index Spread for such Tender Period), all as more fully described herein.

Promptly after the Remarketing Agent determines the Index Spread for the Tender Period commencing on February 14, 2014, the District will publish it by supplementing this Remarketing Statement and posting the supplement with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System (“EMMA”).

The Purchase Price of the tendered Series 2011A-1 Bonds will be paid on February 14, 2014 from moneys held by the Trustee, consisting of immediately available funds on deposit in the Remarketing Proceeds Account, as more fully described herein.

This Introduction is subject in all respects to the more complete information contained and referenced elsewhere in this Remarketing Statement. The remarketing of the Series 2011A-1 Bonds to potential investors is made only by means of the entire Remarketing Statement.

Purpose

The purpose of this Remarketing Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the District and Improvement District Nos. 113, 125, 213 and 225 (collectively, the “Improvement Districts” or individually, an “Improvement District”) which are geographical subdivisions of the District through which the District funds capital improvements, in connection with the remarketing of \$56,040,000 aggregate principal amount of the Series 2011A-1 Bonds, which Series 2011A-1 Bonds constitute the consolidated several general obligations of Improvement District Nos. 113, 125, 213 and 225. In addition, the District has pledged Revenues to the repayment of the Series 2011A-1 Bonds. See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Pledge of Assessment Proceeds and Revenues.”

The Series 2011A-1 Bonds were issued pursuant to the Indenture for the purposes of: (i) providing a portion of the funds to refund the then-outstanding Bonds of Irvine Ranch Water District, Consolidated

Refunding Series 2008B; and (ii) paying costs of issuance with respect to the Series 2011A-1 Bonds. Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in Appendix C—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

This Remarketing Statement describes the Series 2011A-1 Bonds while in the Index Mode and for the Tender Period described herein only. There are significant differences in the terms of the Series 2011A-1 Bonds while they bear interest in a Mode other than an Index Mode. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds bearing interest in a Mode other than the Index Mode or in another Tender Period. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

This Remarketing Statement describes the Series 2011A-1 Bonds for the Tender Period ending on the Scheduled Mandatory Tender Date of March 12, 2015. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds for any other Tender Period. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information relating to the Series 2011A-1 Bonds during any other Tender Period, but should look solely to the offering document to be used in connection with such Tender Period.

Concurrently with the reoffering of the Series 2011A-1 Bonds, the District anticipates reoffering its Bonds of Irvine Ranch Water District Refunding Series 2011A-2 (the “Series 2011A-2 Bonds”). Owners or prospective owners of the Series 2011A-2 Bonds should not rely on this Remarketing Statement for information relating to the Series 2011A-2 Bonds but should look instead to most current Remarketing Statement prepared by the District for the Series 2011A-2 Bonds.

Although the District has the right under the Indenture to enter into a Liquidity Facility in connection with the Series 2011A-1 Bonds, the District has not elected to enter into a Liquidity Facility in connection with the remarketing of the Series 2011A-1 Bonds for the Tender Period commencing February 14, 2014. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds supported by a Liquidity Facility. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information in connection with the Series 2011A-1 Bonds supported by a Liquidity Facility, but should look solely to the offering document to be used in connection with any future entry of the District into a Liquidity Facility with respect to the Series 2011A-1 Bonds.

The District

The District is a California water district, formed in 1961 under the authority of the California Water District Law, constituting Division 13 of the California Water Code (the “Act”). Currently there are seven water improvement districts and ten sewer improvement districts formed pursuant to the Act, which are geographical subdivisions of the District through which the District funds capital improvements. See Appendix A—“IRVINE RANCH WATER DISTRICT.”

The Series 2011A-1 Bonds

The Series 2011A-1 Bonds are being remarketed in an Index Mode for a Tender Period commencing on February 14, 2014 with the Scheduled Mandatory Tender Date of March 12, 2015 and will bear interest at an Index Tender Rate (which is equal to the sum of: (a) the SIFMA Average Index Rate calculated for each Index Rate Accrual Period; and (b) the applicable Index Spread for such Tender Period, all as more fully described under the caption “THE SERIES 2011A-1 BONDS”). While in the Index Mode, interest on the 2011A-1 Bonds will be payable on the first Business Day of each month. The Series 2011A-1 Bonds will be subject to a Scheduled Mandatory Tender on March 12, 2015. The failure of the District to pay the Purchase

Price of a Series 2011A-1 Bond upon any Scheduled Mandatory Tender would constitute an Event of Default under the Indenture. See the caption “THE SERIES 2011A-1 BONDS—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure.” The Series 2011A-1 Bonds are also subject to mandatory tender on an Unscheduled Mandatory Tender Date established at the option of the District as described herein. See the caption “THE SERIES 2011A-1 BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.” While in the Index Mode, individual purchases of Series 2011A-1 Bonds will be made in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof.

Improvement Districts

Set forth below are brief descriptions of the Improvement Districts for which the Series 2011A-1 Bonds constitute the consolidated, several general obligations. For more complete information with respect to the Improvement Districts, see Appendix A—“IRVINE RANCH WATER DISTRICT” under the caption “THE IMPROVEMENT DISTRICTS.”

Improvement District Nos. 125 and 225. At the time of their initial issuance on April 15, 2011, the Series 2011A-1 Bonds constituted the consolidated, several general obligations of Improvement District Nos. 105, 113, 213 and 250. Pursuant to the Indenture, the District covenanted to fix and collect *ad valorem* assessments on taxable land within such improvement districts in amounts sufficient to pay principal of and interest on the Series 2011A-1 Bonds. See the caption “—Security for the Series 2011A-1 Bonds—Assessment Proceeds.”

Beginning in 2011, the District undertook a long-term review of its capital funding plan. As a result of such review, the Board of Directors of the District determined that it was the District’s best interest to consolidate certain improvement districts to support differing capital infrastructure needs within developed and undeveloped areas of the District. Accordingly, by resolutions adopted on October 14, 2013, October 28, 2013 and November 11, 2013, the Board of Directors of the District undertook the following actions:

- Certain lands were annexed into Improvement District Nos. 105 and 250 in accordance with Section 36428 *et seq.* of the Act. The annexed lands were declared to be liable for debt service on the outstanding bonds of Improvement District Nos. 105 and 250, including each such Improvement District’s Included Amount (as such term is defined under the caption “—Security for the Series 2011A-1 Bonds—General”) of the Series 2011A-1 Bonds.
- Certain lands generally constituting large permanent open space parcels were detached from Improvement District Nos. 105 and 250 in accordance with Section 36442 *et seq.* of the Act. The detached lands were declared to be relieved of liability for debt service on the outstanding bonds of Improvement District Nos. 105 and 250, including each such Improvement District’s Included Amount of the Series 2011A-1 Bonds to the extent permitted by law.
- Improvement District No. 105 and ten other water improvement districts were consolidated into a new improvement district, Improvement District No. 125, in accordance with Section 36454 *et seq.* of the Act. Pursuant to Section 36454.1 of the Act, Improvement District No. 105’s Included Amount of the Series 2011A-1 Bonds was assumed by and became the liability of Improvement District No. 125.
- Improvement District No. 250 and nine other sewer improvement districts were consolidated into a new improvement district, Improvement District No. 225, in accordance with Section 36454 *et seq.* of the Act. Pursuant to Section 36454.1 of the Act, Improvement District No. 250’s Included Amount of the Series 2011A-1 Bonds was assumed by and became the liability of Improvement District No. 225.

As a result of the foregoing actions:

- The Series 2011A-1 Bonds currently constitute the consolidated, several general obligations of Improvement District Nos. 113, 125, 213 and 225. Pursuant to the Act, Improvement District Nos. 125 and 225 are authorized to levy and collect the assessments and charges necessary to satisfy the obligations of their predecessor improvement districts, including the assessments and charges necessary to satisfy payment of the Series 2011A-1 Bonds for Improvement District Nos. 105 and 250, respectively.

- As of December 31, 2013: (i) Improvement District No. 125 had \$322,089,600 aggregate principal amount of authorized but unissued *ad valorem* assessment bonds and \$195,652,000 aggregate principal amount of outstanding *ad valorem* assessment bonds, including the Series 2011A-1 Bonds; and (ii) Improvement District No. 225 had \$406,895,000 aggregate principal amount of authorized but unissued *ad valorem* assessment bonds and \$244,963,000 aggregate principal amount of outstanding *ad valorem* assessment bonds, including the Series 2011A-1 Bonds. See Table 3 under the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Improvement District Indebtedness” in Appendix A.

Improvement District No. 125 (water) covers approximately 35,438 acres of the District, including several contiguous and non-contiguous areas in the central and coastal parts of the District. Improvement District No. 225 (sewer) covers approximately 32,862 acres of the District, including several contiguous and non-contiguous areas in the central part of the District. Currently, the majority of the land within Improvement District Nos. 125 and 225 consists of developed residential property. However, the District expects certain areas within Improvement District Nos. 125 and 225 to be subject to infill development and redevelopment in the future. The District expects such additional development in Improvement District Nos. 125 and 225 to continue through at least 2020. The estimated Fiscal Year 2014 assessed value of the land in Improvement District No. 125 is \$27,277,417,155, while the Fiscal Year 2014 assessed value of the land in Improvement District No. 105 before its consolidation into Improvement District No. 125 was \$7,099,866,552. The estimated Fiscal Year 2014 assessed value of the land in Improvement District No. 225 is \$22,829,540,910, while the Fiscal Year 2014 assessed value of the land in Improvement District No. 250 before its consolidation into Improvement District No. 225 was \$6,776,400,622.

See Table 3 under the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Improvement District Indebtedness” in Appendix A for a description of the *ad valorem* assessment bonds, including the Series 2011A-1 Bonds, attributable to Improvement District Nos. 125 and 225, respectively.

Improvement District Nos. 113 and 213. Improvement District No. 113 (water) and Improvement District No. 213 (sewer) are coterminous and are located in portions of the Cities of Tustin and Irvine. Improvement District Nos. 113 and 213 are comprised of approximately 1,629 acres of the land formerly known as Marine Corps Air Station Tustin. The boundaries of Improvement District Nos. 113 and 213 are Harvard Avenue on the southeast, Barranca Parkway on the southwest, Red Hill Avenue on the northwest and Edinger Avenue on the northeast. The former helicopter base, now known as Tustin Legacy, is currently being redeveloped with residential, commercial, institutional and recreational uses. The District expects development in Improvement District Nos. 113 and 213 to continue through at least 2020. The District expects that the total existing and future development will consist of 4,800 dwelling units and 12,100,000 square feet of commercial, institutional and recreational uses. The Fiscal Year 2014 assessed value of the land in Improvement District No. 113 is \$562,239,093. The Fiscal Year 2014 assessed value of the land in Improvement District No. 213 is \$562,239,093.

Security for the Series 2011A-1 Bonds

General. The Series 2011A-1 Bonds constitute the consolidated, several general obligations of the Improvement Districts payable from the following sources, each as further described under the caption “SECURITY FOR THE SERIES 2011A-1 BONDS”: (i) Assessment Proceeds collected from within each Improvement District and applied by the District to pay such Improvement District’s Included Amount (as

defined below) of the principal, Purchase Price and Redemption Price of, and interest on, all Outstanding Series 2011A-1 Bonds; (ii) Net Revenues of the District; and (iii) certain monies and investment earnings in certain funds and accounts created under the Indenture.

The principal amount of the Series 2011A-1 Bonds allocated to an Improvement District is referred to as such Improvement District’s “Included Amount” and an Improvement District’s Included Amount divided by the total principal amount of the Series 2011A-1 Bonds is referred to as such Improvement District’s “Included Percentage.”

Assessment Proceeds. The District has covenanted in the Indenture that, to the extent necessary to provide Assessment Proceeds sufficient to pay when due, together with the other funds available for such payment, the principal of and interest on the Included Amount for each respective Improvement District, the District will: (a) fix and collect, or cause the fixing and collection of, *ad valorem* assessments on taxable land within the applicable Improvement District; (b) pursue any remedy available to collect, or cause the collection of, delinquent *ad valorem* assessments and apply amounts realized from the sale of any property for the enforcement of delinquent *ad valorem* assessments to the payment of principal of and interest on the Included Amount of the Series 2011A-1 Bonds of the applicable Improvement District; or (c) in its discretion, impose and collect, or cause the imposition and collection of, In Lieu Charges (which constitute charges for water or sewer service, as applicable, in the applicable Improvement District in lieu of *ad valorem* assessments). See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—General—Covenant to Collect Assessment Proceeds.”

As among the Improvement Districts, Assessment Proceeds collected in any Improvement District will not be available to pay any other Improvement District’s share of debt service of the Series 2011A-1 Bonds. Each Improvement District’s Included Amount and Included Percentage will be as set forth below:

SERIES 2011A-1 BONDS

| <i>Improvement District No.</i> | <i>Included Amount</i> | <i>Included Percentage</i> |
|---------------------------------|------------------------|----------------------------|
| 113 | \$ 2,802,000 | 5.00% |
| 125 | 26,170,680 | 46.70 |
| 213 | 3,530,520 | 6.30 |
| 225 | <u>23,536,800</u> | <u>42.00</u> |
| Total | <u>\$ 56,040,000</u> | <u>100.00%</u> |

The Included Amount for each Improvement District with respect to the Series 2011A-1 Bonds and any other outstanding or future District general obligation bonds issued for such Improvement District are equally secured by the *ad valorem* assessments and any charges for water or sewer service, as applicable, imposed and collected in lieu of *ad valorem* assessments, collected within such Improvement District. The *ad valorem* assessments are levied only on land and are based on the land value of parcels in the Improvement District without regard to the value of any improvements thereon. See Appendix A—“IRVINE RANCH WATER DISTRICT” under the captions “THE IMPROVEMENT DISTRICTS—Improvement District Nos. 125 and 225” and “THE IMPROVEMENT DISTRICTS—Improvement District Nos. 113 and 213.”

During the term of the Series 2011A-1 Bonds, the Included Amounts and Included Percentages for any Improvement District may be adjusted as a result of the purchase or redemption of Series 2011A-1 Bonds allocated to one or more Improvement Districts, pursuant to calculations made by the District and delivered to the Trustee pursuant to the Indenture, without need for any amendment of or supplement to the Indenture.

Net Revenues. The Series 2011A-1 Bonds are also payable from the Net Revenues of the District and are secured by a pledge of the Revenues of the District, subject to the application of the Revenues as provided in the Indenture. Net Revenues for any period consist of the Revenues of the District less the Operation and Maintenance Expenses of the District for such period, as such terms are defined under the caption

“SECURITY FOR THE SERIES 2011A-1 BONDS—Pledge of Assessment Proceeds and Revenues—Net Revenues.”

Net Revenues collected within any improvement district of the District, including the Improvement Districts, are available to make debt service payments on the Series 2011A-1 Bonds.

The obligation of the District to pay the principal, Redemption Price and Purchase Price (other than the Purchase Price due on an Unscheduled Mandatory Tender) of, and interest on, the Series 2011A-1 Bonds from Net Revenues is payable on a parity with the District’s obligations under certain Parity Obligations. See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Existing Parity Obligations.” The District may enter into additional Parity Obligations in accordance with the terms of the Indenture. See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Limitations on Parity and Superior Obligations—Obligations on a Parity with the Series 2011A-1 Bonds.”

The District has covenanted in the Indenture, to the fullest extent permitted by law, to fix, prescribe and collect Revenues which, together with any *ad valorem* assessments available to pay Debt Service on Parity Obligations which are not applied as a credit against Debt Service, will be at least sufficient to yield during each Fiscal Year Net Revenues which are at least equal to 125% of Aggregate Debt Service payable during such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classifications thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant with respect to all outstanding Parity Obligations. See the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—General—Revenue Rate Covenant.”

***Limited Obligations.* THE SERIES 2011A-1 BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA OTHER THAN THE DISTRICT AND THE IMPROVEMENT DISTRICTS AS PROVIDED IN THE INDENTURE. NO FUNDS OF THE DISTRICT OR THE IMPROVEMENT DISTRICTS, OTHER THAN THE FUNDS INCLUDED IN THE TRUST ESTATE, ARE LIABLE FOR THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS. EXCEPT AS PROVIDED IN THE INDENTURE WITH RESPECT TO THE TRUST ESTATE, NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS LIABLE FOR OR PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS.**

Professionals Involved in the Remarketing

The Bank of New York Mellon Trust Company, N.A. serves as Trustee under the Indenture. Certain legal matters in connection with the reoffering of the Series 2011A-1 Bonds will be passed upon by Orrick, Herrington & Sutcliffe LLP, as Co-Bond Counsel to the District, by Bowie, Arneson, Wiles & Giannone, as Co-Bond Counsel to the District and general counsel to the District (“General Counsel”), and for Goldman, Sachs & Co. (the “Remarketing Agent”) by Stradling Yocca Carlson & Rauth, a Professional Corporation.

Summaries Not Definitive

The summaries 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 or reference is qualified in its entirety by reference to each such document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

All references to and summaries of the Indenture, documents, statutes, reports and other instruments referred to herein are qualified in their entirety by reference to the full Indenture, and each such document, statute, report or instrument, respectively. Forward looking statements in this Remarketing Statement are subject to risks and uncertainties. Actual results may vary from forecasts or projections contained herein because events and circumstances do not occur as expected, and such variances may be material. The projections contained in this Remarketing Statement will not be updated as part of the District's continuing disclosure obligations for the Series 2011A-1 Bonds.

Additional Information

Copies of the Indenture and audited financial statements of the District are available for inspection at the offices of the District in Irvine, California, and will be available from the Trustee upon request and payment of costs. Additional information regarding this Remarketing Statement may be obtained by contacting the District, at the following address:

Treasurer
Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, California 92618
(949) 453-5300

THE SERIES 2011A-1 BONDS

This Remarketing Statement describes the Series 2011A-1 Bonds while in the Index Mode and for the Tender Period described herein only. There are significant differences in the terms of the Series 2011A-1 Bonds while they bear interest in a Mode other than an Index Mode. This Remarketing Statement is not intended to provide information with respect to the Series 2011A-1 Bonds bearing interest in a Mode other than the Index Mode or in another Tender Period. Owners and prospective owners of the Series 2011A-1 Bonds should not rely on this Remarketing Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

General

The Series 2011A-1 Bonds mature on October 1, 2037. The Series 2011A-1 Bonds are being remarketed in an Index Mode for a Tender Period commencing on February 14, 2014 with the Scheduled Mandatory Tender Date set forth on the front cover page hereof and will bear interest at an Index Tender Rate (which is equal to the sum of: (a) the SIFMA Average Index Rate calculated for each Index Rate Accrual Period; and (b) the applicable Index Spread for such Tender Period). Notice of the Index Spread for the Tender Period commencing on February 14, 2014 will be given as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Index Spread; Adjustment of Index Spread.” All Outstanding Series 2011A-1 Bonds will be in the same Mode. Any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner provided in the Indenture.

While in the Index Mode, the Series 2011A-1 Bonds will be subject to all of the terms of the Indenture relating to the Series 2011A-1 Bonds in the Index Mode, including provisions that require the Owners to tender their Series 2011A-1 Bonds for purchase on the Scheduled Mandatory Tender Date and on other dates as described in this Remarketing Statement, and provisions that permit the District to effect an Unscheduled Mandatory Tender (which Unscheduled Mandatory Tender is subject to rescission and successful remarketing as described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Rescission”). See the caption “—Mandatory Tender for Purchase” and “—Purchase of Series 2011A-1 Bonds.”

While in the Index Mode, the Series 2011A-1 Bonds are not subject to tender for purchase at the option of the Owners.

The Series 2011A-1 Bonds are in the form of fully registered bonds and are 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 Series 2011A-1 Bonds. While the Series 2011A-1 Bonds are in the Index Mode, individual purchases of Series 2011A-1 Bonds will be made in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof. See the caption “—Book-Entry Only System” and Appendix E hereto.

Payment of Interest

Interest on the Series 2011A-1 Bonds in an Index Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed. Interest on the Series 2011A-1 Bonds in an Index Mode and for the Tender Period commencing February 14, 2014 is payable on the first Business Day of each calendar month, commencing March 3, 2014, and on each Mandatory Purchase Date, Scheduled Mandatory Tender Date and Unscheduled Mandatory Tender Date on which all outstanding Series 2011A-1 Bonds are purchased (each, an “Interest Payment Date”).

During the Index Mode, payment will be made on each Interest Payment Date for unpaid interest accrued from and including each Interest Accrual Date, which is the first day of each Tender Period and each Interest Payment Date thereafter. The amount of interest payable on each such Interest Payment Date will be determined in accordance with the provisions described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Duration of Tender Period”) and, thereafter, the first Business Day of each month during such Tender Period (each, an “Interest Accrual Date”) to but excluding such Interest Payment Date. Notwithstanding any provision of the Indenture, at no time may the rate of interest on any Series 2011A-1 Bond exceed the Maximum Rate.

Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode

Determination of SIFMA Average Index Rate and Index Tender Rate. During each Tender Period, no later than 11:00 a.m.* on the Business Day immediately preceding each Interest Payment Date while the Series 2011A-1 Bonds bear interest in the Index Mode, the Trustee will deliver written notice to the District and the Remarketing Agent specifying the SIFMA Average Index Rate and the Index Tender Rate for, and the aggregate amount of interest that accrued during, the Index Rate Accrual Period ending on the day preceding such Interest Payment Date together with a detailed calculation of the foregoing. All percentages resulting from the calculation of the SIFMA Average Index Rate will be rounded, if necessary, to the nearest ten-thousandth of a percentage point with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation of interest on the Series 2011A-1 Bonds while bearing interest in an Index Mode will be rounded to the nearest cent (with one-half cent being rounded upward).

Index Spread; Adjustment of Index Spread. Promptly after the Remarketing Agent determines the Index Spread for the Tender Period commencing on February 14, 2014, the District will publish it by supplementing this Remarketing Statement and posting the supplement with EMMA. With respect to subsequent Tender Periods, the Index Spread will be determined by the Remarketing Agent and adjusted as described under the captions “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender” and “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender.” During each Tender Period, the Index Spread with respect to such Tender Period will apply to all Series 2011A-1 Bonds.

* Unless otherwise expressly stated, all times referred to in this Remarketing Statement are New York City time.

Duration of Tender Period. A Tender Period will commence on February 14, 2014 and end on March 12, 2015. Thereafter, each Tender Period will commence on the first to occur of: (i) the Scheduled Mandatory Tender Date of the immediately preceding Tender Period; (ii) an Unscheduled Mandatory Tender Date in connection with any Unscheduled Mandatory Tender if all Series 2011A-1 Bonds are actually purchased as described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds;” and (iii) the effective date of a Change in Mode to an Index Mode. Each Tender Period will terminate on the first to occur of: (a) the Scheduled Mandatory Tender Date; (b) an Unscheduled Mandatory Tender Date in connection with any Unscheduled Mandatory Tender if all Series 2011A-1 Bonds are actually purchased as described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds;” (c) the first date on which the Series 2011A-1 Bonds bear interest in a Mode other than the Index Mode; or (d) the date on which all Series 2011A-1 Bonds are redeemed in accordance with the terms of the Indenture or all principal and accrued interest on all Series 2011A-1 Bonds are otherwise paid in full.

Mandatory Tender for Purchase

Scheduled Mandatory Tender for Purchase. Unless the Series 2011A-1 Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, the Owners of all of the Series 2011A-1 Bonds will tender for purchase, and the District will purchase, all of the Series 2011A-1 Bonds on the Scheduled Mandatory Tender Date for such Tender Period. The Trustee will give notice of each Scheduled Mandatory Tender to the Owners of the Series 2011A-1 Bonds as provided in the Indenture not less than seven days prior to the Scheduled Mandatory Tender Date. With respect to the Tender Period commencing on February 14, 2014, the Scheduled Mandatory Tender Date is March 12, 2015 and, with respect to each subsequent Tender Period, the Scheduled Mandatory Tender Date will be determined as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Duration of Tender Period.” Failure of the District to pay the Purchase Price for the Series 2011A-1 Bonds on a Scheduled Mandatory Tender Date constitutes an Event of Default under the Indenture. See the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure” below.

Unscheduled Mandatory Tender for Purchase. While the Series 2011A-1 Bonds bear interest in an Index Mode, at its option, the District may require, during each Tender Period, the Owners of all (but not less than all) of the Series 2011A-1 Bonds to tender their Series 2011A-1 Bonds to the District for purchase, from the source of funds described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds” on any Business Day from and after the Call Protection Date for such Tender Period. The Call Protection Date for the Tender Period commencing February 14, 2014 is set forth on the front cover page hereof. To exercise such option, the District will deliver to the Trustee at its Corporate Trust Office and the Remarketing Agent, no later than 10 days before the Unscheduled Mandatory Tender Date, the written notice of Unscheduled Mandatory Tender described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Effect of a Successful Remarketing.” The Trustee will give notice of each Unscheduled Mandatory Tender to the Owners of the Series 2011A-1 Bonds as provided in the Indenture not less than seven days prior to the Unscheduled Mandatory Tender Date. Except as provided under the captions “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Rescission” and “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions,” the Trustee will pay to the Owners of the Series 2011A-1 Bonds 100% of the principal amount of the Series 2011A-1 Bonds from the proceeds of the remarketing of such Series 2011A-1 Bonds as described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds.” If all outstanding Series 2011A-1 Bonds are purchased, the Unscheduled Mandatory Tender Date is

also an Interest Payment Date for the Series 2011A-1 Bonds and the District will pay the unpaid accrued interest on the Series 2011A-1 Bonds on such date. The failure to pay the purchase price of Series 2011A-1 Bonds in connection with an Unscheduled Mandatory Tender does not constitute an Event of Default under the Indenture and the purchase of the Series 2011A-1 Bonds subject to mandatory tender will be cancelled and the Index Mode Tender Period will continue. See the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions.”

Purchase of Series 2011A-1 Bonds

The Remarketing Agent has agreed to use its best efforts to remarket the Series 2011A-1 Bonds pursuant to the Indenture at the minimum interest rate available in the marketplace to permit the Remarketing Agent to remarket the Series 2011A-1 Bonds on the Purchase Date, Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, at the principal amount thereof; provided that the remarketing of the Series 2011A-1 Bonds in connection with a Scheduled Mandatory Tender or an Unscheduled Mandatory Tender will be as provided under the captions “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender” and “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender,” respectively. Series 2011A-1 Bonds subject to purchase on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date will be purchased from the Owners thereof at the Purchase Price which will be payable solely from the following sources in the order listed, except that the Purchase Price in connection with an Unscheduled Mandatory Tender is payable solely from the source described in clause (i) below:

- (i) Immediately available funds on deposit in the Remarketing Proceeds Account; and
- (ii) Immediately available funds on deposit in the District Purchase Account.

See Appendix C under the caption “DEFINITIONS” for a description of the Remarketing Proceeds Account and District Purchase Account.

At or before 3:00 p.m. on the Business Day immediately preceding each Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, the Remarketing Agent: (i) unless otherwise provided in a Representation Letter, is to deliver to the Trustee instructions for registration of Series 2011A-1 Bonds remarketed in accordance with the Indenture; and (ii) is to give Electronic Notice to the Trustee and the District, specifying the aggregate principal amount of Series 2011A-1 Bonds not remarketed, if any. If the Series 2011A-1 Bonds are registered in the name of a Bond Depository or its nominee, and if the amount of such remarketing proceeds is sufficient to pay the Purchase Price of all Series 2011A-1 Bonds to be purchased on the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, the Remarketing Agent may apply such remarketing proceeds to the appropriate accounts of such Bond Depository to effect payment of the Purchase Price of Series 2011A-1 Bonds in accordance with the procedures established by such Bond Depository.

If the amount of proceeds from the remarketing delivered to the Trustee indicates that Series 2011A-1 Bonds are required to be purchased from moneys provided by the District, the Trustee will give Electronic Notice to the District at or prior to 11:30 a.m. on such date specifying the information set forth in the Indenture. Upon receipt of such notice, on each Mandatory Purchase Date and Scheduled Mandatory Tender Date, the District is to deposit with the Trustee in the District Purchase Account, by 2:00 p.m. on such date, immediately available funds in an amount together with the remarketing proceeds, to enable the Trustee to pay the Purchase Price of the tendered Series 2011A-1 Bonds. Unless otherwise provided in a Representation Letter, on each Mandatory Purchase Date, Scheduled Mandatory Tender Date and, if all Series 2011A-1 Bonds are purchased, each Unscheduled Mandatory Tender Date, all Series 2011A-1 Bonds which have been remarketed will be registered as directed by the Remarketing Agent.

The Trustee will pay from the funds specified in the Indenture, the Purchase Price for each tendered Series 2011A-1 Bond at or prior to 3:00 p.m. on the Mandatory Purchase Date, Scheduled Mandatory Tender Date or, if all Series 2011A-1 Bonds are purchased, the Unscheduled Mandatory Tender Date, as the case may be; provided that the Purchase Price of Series 2011A-1 Bonds in connection with an Unscheduled Mandatory Tender will be payable only from amounts in the Remarketing Proceeds Account. The Purchase Price of any Series 2011A-1 Bond so tendered is payable only upon surrender of such Series 2011A-1 Bond to the Trustee at its Corporate Trust Office for delivery of such Series 2011A-1 Bond, except that payment of the Purchase Price of any Series 2011A-1 Bond tendered for purchase or otherwise purchased pursuant to a Representation Letter will be made in immediately available funds and in such manner as the Bond Depository and the Trustee agree.

Notwithstanding any provision to the contrary contained in the Indenture, all tenders for purchase in connection with an Unscheduled Mandatory Tender are payable only from immediately available funds on deposit in the Remarketing Proceeds Account.

Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender

Remarketing of Series 2011A-1 Bonds. During each Tender Period in the Index Mode, upon establishing the Index Spread for the next succeeding Tender Period (as described below under the caption “—Determination of Index Spread”), the Remarketing Agent will offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all Series 2011A-1 Bonds at a price equal to the principal amount thereof, such that the Index Spread for the next Tender Period will be adjusted as described below under the caption “—Determination of Index Spread.” The Remarketing Agent will sell any Series 2011A-1 Bonds tendered pursuant to a Scheduled Mandatory Tender at the principal amount thereof; provided that if the District delivers a Favorable Opinion of Bond Counsel, the District has the right to direct the Remarketing Agent to sell any Series 2011A-1 Bonds tendered pursuant to a Scheduled Mandatory Tender at a discount or at a premium.

Determination of Scheduled Mandatory Tender Date. Unless the Series 2011A-1 Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, the District, by direction to the other Notice Parties by Electronic Notice or telecopy not later than 10 days before the Scheduled Mandatory Tender Date for each Tender Period, is to determine the Scheduled Mandatory Tender Date for all Series 2011A-1 Bonds for the Tender Period immediately following the purchase of Series 2011A-1 Bonds pursuant to a Scheduled Mandatory Tender as provided in the Indenture. Such Scheduled Mandatory Tender Date may be any Business Day during the next Tender Period except that the Scheduled Mandatory Tender Date will not be a date that is earlier than three months after the commencement of the Tender Period. If the District is required to deliver a written direction as provided above but fails to do so, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of Series 2011A-1 Bonds will be the date that is one year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Tender Period commencing on a Scheduled Mandatory Tender Date that the Series 2011A-1 Bonds are purchased pursuant to a Scheduled Mandatory Tender, the Call Protection Date will be the Tender Period Standard Date; provided that if the District delivers to the Trustee a Favorable Opinion of Bond Counsel and specifies such Call Protection Date in the direction as to the Scheduled Mandatory Tender Date, the District may determine that the Call Protection Date for such Tender Period will be any Business Day during the Tender Period. The Call Protection Date with respect to the Tender Period commencing on February 14, 2014 is September 12, 2014.

Determination of Index Spread. Unless the Series 2011A-1 Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or

redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, no later than 5:00 p.m. on the day that is two Business Days before the Scheduled Mandatory Tender Date for such Tender Period, the Remarketing Agent is to determine the Index Spread with respect to the Tender Period immediately following such Scheduled Mandatory Tender Date. The Index Spread determined by the Remarketing Agent is to be equal to the minimum fixed spread to SIFMA which, if borne by the Series 2011A-1 Bonds, would enable the Remarketing Agent to sell all Series 2011A-1 Bonds tendered or deemed tendered pursuant to the Scheduled Mandatory Tender on the Scheduled Mandatory Tender Date at a price equal to the principal amount thereof. With respect to all Series 2011A-1 Bonds sold with an Index Tender Rate based on an Index Spread determined by the Remarketing Agent pursuant to the Indenture, the determination of the Index Spread so determined by the Remarketing Agent will be conclusive and binding on the Notice Parties and the Owners of the Series 2011A-1 Bonds.

Purchase of Series 2011A-1 Bonds. Series 2011A-1 Bonds required to be purchased as described under caption “—Remarketing of Series 2011A-1 Bonds” will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the sources and in the order of priority described under the caption “—Mandatory Tender for Purchase—Scheduled Mandatory Tender for Purchase.”

The District is irrevocably obligated to pay the Purchase Price of all Series 2011A-1 Bonds on each Scheduled Mandatory Tender Date.

Consequences of a Scheduled Mandatory Tender Failure. Upon the occurrence of a Scheduled Mandatory Tender Failure on any Scheduled Mandatory Tender Date, the following will occur:

(i) The Trustee will promptly return all Series 2011A-1 Bonds to the Owners thereof together with notice of such failure and the Trustee and the Remarketing Agent will promptly return all remarketing proceeds to the persons providing such moneys without interest;

(ii) The Tender Period then in effect will terminate on such Scheduled Mandatory Tender Date and the Series 2011A-1 Bonds will bear interest at the last Index Tender Rate for the Tender Period so terminated from the applicable Scheduled Mandatory Tender Date to the earliest to occur of the purchase of the Series 2011A-1 Bonds by or on behalf of the District or the payment of the principal of the Series 2011A-1 Bonds; and

(iii) An Event of Default under the Indenture will occur.

Effect of a Successful Remarketing. If moneys on deposit with the Trustee are sufficient to pay the Purchase Price of Series 2011A-1 Bonds to be purchased as described under caption “—Remarketing of Series 2011A-1 Bonds” on a Scheduled Mandatory Tender Date, the following will occur:

(i) The Tender Period in effect immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Tender Period will commence on such date; and

(ii) The Index Spread with respect to the Series 2011A-1 Bonds for the new Tender Period will be the Index Spread determined as described above under the caption “—Determination of Index Spread.”

Notification of Scheduled Mandatory Tender Failure. On the date of a Scheduled Mandatory Tender Failure, the Trustee will deliver a notice by mail to: (i) the District; (ii) the respective Owners of any Series 2011A-1 Bonds at their addresses appearing on the Bond Register; (iii) the Remarketing Agent; and (iv) one or more Information Services, which will state: (A) that a Scheduled Mandatory Tender Failure occurred; (B) the Trustee will return all Series 2011A-1 Bonds tendered on the Scheduled Mandatory Tender Date to the Owners thereof; and (C) an Event of Default has occurred under the Indenture.

Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender

Remarketing of Series 2011A-1 Bonds. Upon receipt of notice of an Unscheduled Mandatory Tender from the District as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase,” the Remarketing Agent will offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all Series 2011A-1 Bonds at a price equal to the principal amount thereof, such that the Index Spread for the next Tender Period will be adjusted as described below under the caption “—Determination of Index Spread.” The Remarketing Agent will sell any Series 2011A-1 Bonds tendered pursuant to an Unscheduled Mandatory Tender at the principal amount thereof; provided that if the District delivers a Favorable Opinion of Bond Counsel, the District has the right to direct the Remarketing Agent to sell any Series 2011A-1 Bonds tendered pursuant to an Unscheduled Mandatory Tender at a discount or at a premium.

Determination of Scheduled Mandatory Tender Date. The District, by direction to the other Notice Parties by Electronic Notice or teletype not later than ten days before each Unscheduled Mandatory Tender Date, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of Series 2011A-1 Bonds pursuant to an Unscheduled Mandatory Tender, as provided in the Indenture. Such Scheduled Mandatory Tender Date may be any Business Day, except that the Scheduled Mandatory Tender Date may not be a date that is earlier than three months after the commencement of the Tender Period.

Establishment of Call Protection Date. With respect to any Tender Period commencing on an Unscheduled Mandatory Tender Date that all Series 2011A-1 Bonds are purchased pursuant to an Unscheduled Mandatory Tender, the Call Protection Date will be the Tender Period Standard Date; provided that if the District delivers to the Trustee a Favorable Opinion of Bond Counsel and specifies such Call Protection Date in the direction as to the Scheduled Mandatory Tender Date, the District may determine that the Call Protection Date for such Tender Period will be any Business Day during such Tender Period. The Call Protection Date with respect to the Tender Period commencing on February 14, 2014 is September 12, 2014.

Determination of Index Spread. No later than 5:00 p.m. on the day that is two Business Days before each Unscheduled Mandatory Tender Date, the Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Unscheduled Mandatory Tender Date. The Remarketing Agent will determine the Index Spread which will be equal to the minimum spread to SIFMA which, if borne by the Series 2011A-1 Bonds, would enable the Remarketing Agent to sell all Series 2011A-1 Bonds tendered pursuant to the Unscheduled Mandatory Tender on the Unscheduled Mandatory Tender Date at a price equal to the principal amount thereof. With respect to all Series 2011A-1 Bonds sold with an Index Tender Rate based on an Index Spread determined by the Remarketing Agent pursuant to the Indenture, the determination of the Index Spread so determined by the Remarketing Agent will be conclusive and binding on the Notice Parties and the Owners of the Series 2011A-1 Bonds.

Purchase of Series 2011A-1 Bonds. Subject to the provisions described under the caption “—Rescission” and “—Failure to Meet Conditions,” the District will cause Series 2011A-1 Bonds required to be purchased in an Unscheduled Mandatory Tender to be purchased on each Unscheduled Mandatory Tender Date from the Owners thereof at the Purchase Price from the source indicated under the caption “—Purchase of Series 2011A-1 Bonds.”

Consequences of an Unscheduled Mandatory Tender Failure or a Rescission. If the District rescinds any Unscheduled Mandatory Tender as described under the caption “—Rescission” or if any of the conditions of any Unscheduled Mandatory Tender are not satisfied as described under the captions “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” and “—Failure to Meet Conditions,” then the District will not have any obligation to purchase any Series 2011A-1 Bonds and no purchase of Series 2011A-1 Bonds will occur. In such event, the following will occur:

(i) The Trustee will return all Series 2011A-1 Bonds to the Owners thereof together with notice of the basis for such return and the Trustee and the Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;

(ii) The Series 2011A-1 Bonds will continue to bear interest at the Index Tender Rate in effect during such Tender Period without change or modification and the Tender Period then in effect will continue until terminated in accordance with the provisions set forth under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Duration of Tender Period”; and

(iii) No Event of Default under the Indenture will have occurred.

Rescission. The District has the option to deliver to the Trustee at its Corporate Trust Office and the Remarketing Agent, on or prior to 5:00 p.m. on the Business Day immediately preceding the Unscheduled Mandatory Tender Date for an Unscheduled Mandatory Tender, a notice to the effect that the District elects to rescind such Unscheduled Mandatory Tender. If the District so rescinds an Unscheduled Mandatory Tender, then no purchase will occur, the Series 2011A-1 Bonds will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect without change or modification and the Tender Period then in effect will continue until terminated as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Duration of Tender Period.”

Failure to Meet Conditions. Any Unscheduled Mandatory Tender, if not rescinded, will be conditioned upon: (a) amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit from remarketing proceeds, as described under the caption “—Purchase of Series 2011A-1 Bonds,” with the Trustee on the Unscheduled Mandatory Tender Date; and (b) in connection with any change in the Call Protection Date for the next succeeding Tender Period from the Tender Period Standard Date, the delivery by the District of the Favorable Opinion of Bond Counsel described under the caption “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Establishment of Call Protection Date.” If on an Unscheduled Mandatory Tender Date the conditions described in the immediately preceding sentence are not satisfied, then no purchase of Series 2011A-1 Bonds will occur, the Series 2011A-1 Bonds will continue to bear interest at the Index Tender Rate in effect during the Tender Period then in effect without change or modification and the Tender Period then in effect will continue until terminated as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for Series 2011A-1 Bonds in Index Mode—Duration of Tender Period.”

Failure by the District to pay or cause to be paid the Purchase Price of Series 2011A-1 Bonds tendered under the Unscheduled Mandatory Tender provisions of the Indenture for any reason does not constitute an Event of Default by the District under the Indenture. No such failure affects the District’s right to require Owners of Series 2011A-1 Bonds to tender their Series 2011A-1 Bonds as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” during the remainder of the Tender Period then in effect or during any subsequent Tender Period.

Effect of a Successful Remarketing. If moneys on deposit with the Trustee are sufficient to pay the Purchase Price of Series 2011A-1 Bonds to be purchased as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” and all other conditions are satisfied, the following will occur:

(i) The Tender Period in effect immediately before such tender will terminate on such Unscheduled Mandatory Tender Date and a new Tender Period will commence on such date; and

(ii) The Index Spread with respect to the Series 2011A-1 Bonds for the new Tender Period will be the Index Spread determined as described above under the caption “—Determination of Index Spread.”

Changes in Mode

Subject to the provisions of the Indenture, the District may effect a Change in Mode with respect to the Series 2011A-1 Bonds by delivering to the Trustee, with copies to the other Notice Parties, a Notice of Change in Mode stating: (A) the election to change the Mode to which the Series 2011A-1 Bonds are then subject (the “Current Mode”) to a different Mode (the “New Mode”), the type of which will be specified; (B) the date on which the Series 2011A-1 Bonds are required to be purchased pursuant to the provisions described below under the caption “—Mandatory Purchase of Series 2011A-1 Bonds,” which will be the date as of which the New Mode takes effect and a Business Day immediately following the end of an Adjustment Period or the last day of a Tender Period, or a Business Day on which the Series 2011A-1 Bonds would be subject to redemption at the option of the District; and (C) a form of notice of mandatory tender for purchase satisfying the requirements described below under the caption “—Mandatory Purchase of Series 2011A-1 Bonds.” In no event will a Change in Mode occur prior to the Call Protection Date set forth on the front cover page hereof.

Not less than seven days prior to a proposed Change in Mode, and in reliance upon a Notice of Change in Mode, the Trustee will give written notice, in the form prepared by the District and delivered to the Trustee pursuant to the immediately preceding paragraph, to the Owners of the mandatory tender for purchase of all Outstanding Series 2011A-1 Bonds as described below under the caption “—Mandatory Purchase of Series 2011A-1 Bonds” in connection with the Change in Mode.

The New Mode will take effect only if the following conditions are satisfied: (i) by 9:00 a.m. on the date of the proposed Change in Mode: (A) if a Liquidity Facility is to be in effect during the New Mode, the interest portion of the Liquidity Facility is in an amount equal to or greater than the Liquidity Facility Interest Amount for the applicable Mode; and (B) if the New Mode is the Fixed Rate Mode, the Trustee and the Remarketing Agent have received a Fixed Rate Terms Certificate; and (ii) the Trustee has received sufficient remarketing proceeds of the Series 2011A-1 Bonds in the New Mode to pay the Purchase Price of the Bonds subject to mandatory tender for purchase in connection with the Change in Mode. If such conditions are satisfied, then the New Mode will take effect on the date of the proposed Change in Mode. If such conditions are not satisfied, then: (a) all Outstanding Series 2011A-1 Bonds will be purchased on the Mandatory Purchase Date described below under the caption “—Mandatory Purchase of Series 2011A-1 Bonds;” (b) all Outstanding Series 2011A-1 Bonds will continue to be subject to the Index Mode; (c) the Tender Period for all Outstanding Series 2011A-1 Bonds will extend from and including the date on which the New Mode was to take effect to and including the date which is three months after such date (and if such date is not a Business Day, the next day which is followed by a Business Day); (d) the interest on the Series 2011A-1 Bonds for the Index Rate Accrual Period will be the last Index Tender Rate in effect during the immediately preceding Tender Period; and (e) the Trustee will, within five Business Days after the date of the proposed Change in Mode, send notice to the Notice Parties stating that the conditions to the Change in Mode have not all been satisfied and informing them of the consequences thereof, as described in the Indenture.

Mandatory Purchase of Series 2011A-1 Bonds

Except as otherwise provided under the captions “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Rescission” and “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions” with respect to an Unscheduled Mandatory Tender, each Series 2011A-1 Bond which is subject to mandatory tender for purchase on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date as a result of a Change in Mode or as otherwise provided in the Indenture will be purchased on such date at the applicable Purchase Price but solely from the sources of payment described under the captions “—Purchase of Series 2011A-1 Bonds,” “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds” or “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds,” as applicable. Subject to the provisions of the Indenture and unless otherwise provided in a Representation Letter, all Series 2011A-1 Bonds required to be purchased on a

Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date will be tendered for purchase by delivery to the Trustee at its Corporate Trust Office on or prior to the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, and, except as otherwise provided under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” with respect to an Unscheduled Mandatory Tender, will be purchased, but solely from the sources of payment described under the captions “—Purchase of Series 2011A-1 Bonds,” “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds” or “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Purchase of Series 2011A-1 Bonds,” as applicable.

Undelivered Bonds

Any Series 2011A-1 Bond which is subject to mandatory tender for purchase in accordance with the provisions described under the caption “—Mandatory Tender for Purchase” which is not tendered for purchase as required by the Indenture, will constitute an Undelivered Bond and will nonetheless be deemed to have been so tendered and, upon provision for payment of the Purchase Price thereof from the applicable funds specified under the caption “—Purchase of Series 2011A-1 Bonds,” will be deemed to have been purchased on the Mandatory Purchase Date, the Scheduled Mandatory Tender Date or the Unscheduled Mandatory Tender Date, as applicable, after which no interest will accrue on such Series 2011A-1 Bond for the benefit of the Owner required to tender such Series 2011A-1 Bond from and after such Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, and such Owner will have no rights under the Indenture as the Owner of such Series 2011A-1 Bond except the right to receive the Purchase Price thereof from the funds available therefor, as described under the caption “—Purchase of Series 2011A-1 Bonds.”

Refinancing and Related Risks

No assurance can be given that the District will have sufficient remarketing proceeds or funds on hand on March 12, 2015 or any other Scheduled Mandatory Tender Date to pay the Purchase Price of the Series 2011A-1 Bonds upon the mandatory tender thereof on such date. The District has not currently provided for any Liquidity Facility to support the payment of the Purchase Price upon mandatory tender of the Series 2011A-1 Bonds. In the event that the District does not have sufficient funds to pay the Purchase Price of the Series 2011A-1 Bonds on such date from remarketing proceeds or other funds on hand, the District’s ability to pay such Purchase Price is dependent on the District’s ability: (i) to issue and sell refunding obligations to refund Series 2011A-1 Bonds prior to such date; or (ii) to provide for the conversion of such Series 2011A-1 Bonds to another Mode on or prior to such date and to receive sufficient remarketing proceeds upon such conversion to provide for payment of the Purchase Price of the Series 2011A-1 Bonds upon the mandatory tender thereof.

A variety of events could prevent access to the municipal securities market, prohibit the District from issuing such refunding obligations or remarketing such Series 2011A-1 Bonds or make the issuance of refunding obligations or the remarketing of such Series 2011A-1 Bonds prohibitively expensive. No assurance can be given that the District will be able to effect such a refinancing or remarketing on sufficiently favorable terms. Failure of the District to provide sufficient funds to pay the Purchase Price on the Scheduled Mandatory Tender Date constitutes an Event of Default under the Indenture. See the caption “THE SERIES 2011A-1 BONDS—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure.”

The Series 2011A-2 Bonds are also subject to risks described in the preceding two paragraphs.

Redemption of Series 2011A-1 Bonds

Optional Redemption. The Series 2011A-1 Bonds in the Index Mode are subject to redemption at the option of the District in whole or in part, in Authorized Denominations, during any Tender Period, on any Business Day on or after the Call Protection Date for such Tender Period, at a Redemption Price equal to 100% of the principal amount of the Series 2011A-1 Bonds being redeemed plus unpaid accrued interest, if any, to such Redemption Date, without premium. See the captions “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Scheduled Mandatory Tender—Establishment of Call Protection Date” and “—Remarketing and Purchase of Series 2011A-1 Bonds in Connection with Unscheduled Mandatory Tender—Establishment of Call Protection Date.” The Call Protection Date for the Tender Period commencing on February 14, 2014 is September 12, 2014.

Mandatory Redemption. The Series 2011A-1 Bonds are subject to mandatory redemption in part on October 1, 2014 and on each October 1 thereafter, upon notice as described under the caption “—Notice of Redemption,” at a Redemption Price equal to 100% of the principal amount of the Series 2011A-1 Bonds to be redeemed, without premium, in the years and principal amounts as follows:

SERIES 2011A-1 BONDS DUE OCTOBER 1, 2037

| <i>Mandatory Redemption Dates (October 1)</i> | <i>Principal Amount of Series 2011A-1 Bonds to be Redeemed</i> |
|---|--|
| 2014 | \$1,440,000 |
| 2015 | 1,500,000 |
| 2016 | 1,560,000 |
| 2017 | 1,620,000 |
| 2018 | 1,680,000 |
| 2019 | 1,740,000 |
| 2020 | 1,800,000 |
| 2021 | 1,920,000 |
| 2022 | 1,980,000 |
| 2023 | 2,040,000 |
| 2024 | 2,100,000 |
| 2025 | 2,220,000 |
| 2026 | 2,280,000 |
| 2027 | 2,400,000 |
| 2028 | 2,460,000 |
| 2029 | 2,580,000 |
| 2030 | 2,700,000 |
| 2031 | 2,820,000 |
| 2032 | 2,880,000 |
| 2033 | 3,000,000 |
| 2034 | 3,120,000 |
| 2035 | 3,240,000 |
| 2036 | 3,420,000 |
| 2037 (maturity) | 3,540,000 |

Upon any purchase and cancellation of Series 2011A-1 Bonds by the District or any redemption of Series 2011A-1 Bonds pursuant to the optional redemption provisions of the Indenture described under the caption “—Optional Redemption,” an amount equal to the aggregate principal amount of Series 2011A-1 Bonds so purchased or redeemed will be credited toward a part or all of any one or more yearly mandatory redemptions required by the Indenture, as directed in writing by the District, provided that such direction is received by the Trustee at least 45 days before the date of such mandatory redemption. Any such direction will state the years in which and the amounts by which such mandatory redemptions are to be reduced. The portion of any such mandatory redemption remaining after the deduction of any such amounts credited toward the same (or the original amount of any such mandatory redemption if no such amounts have been credited

toward the same) constitutes the unsatisfied balance of such mandatory redemption for the purpose of the calculation of payments due on October 1 in any future year.

Selection of Series 2011A-1 Bonds for Redemption

If not otherwise provided in the Indenture, whenever less than all Outstanding Series 2011A-1 Bonds of a maturity are to be redeemed on any one date, the Trustee will select the Series 2011A-1 Bonds of such maturity to be redeemed from the Outstanding Series 2011A-1 Bonds of such maturity by lot, or in such other manner as the Trustee deems fair.

Notice of Redemption

Notice of redemption will be given by Mail by the Trustee to the Remarketing Agent and the Owners of any Series 2011A-1 Bonds designated for redemption in whole or in part no less than 30 days nor more than 60 days prior to the Redemption Date. So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series 2011A-1 Bonds, notices of redemption will be given to DTC. See the caption “—Book-Entry Only System” below.

Each notice of redemption will state the Redemption Date, the redemption place and the Redemption Price, the maturity dates of the Series 2011A-1 Bonds to be redeemed and designate the numbers of the Series 2011A-1 Bonds to be redeemed if less than all of the Outstanding Series 2011A-1 Bonds of a maturity are to be redeemed, will (in the case of any Series 2011A-1 Bond called for redemption in part only) state the portion of the principal amount thereof which is to be redeemed, and state that, if the Trustee holds sufficient available funds to pay the Redemption Price of the Series 2011A-1 Bonds to be redeemed on the Redemption Date, the interest thereon or portions thereof designated for redemption will cease to accrue from and after such Redemption Date and that on such Redemption Date there will become due and payable on the Series 2011A-1 Bonds or portions thereof designated for redemption the Redemption Price thereon. The failure of any Owner to receive such notice will not affect the validity of the redemption of any Series 2011A-1 Bonds.

With respect to any notice of any optional redemption of Series 2011A-1 Bonds, unless at the time such notice is given the Trustee holds sufficient available funds to pay the Redemption Price of the Series 2011A-1 Bonds to be redeemed, such notice will state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of the Series 2011A-1 Bonds to be redeemed, and that if such moneys have not been so received said notice will be of no force and effect and the District will not be required to redeem such Series 2011A-1 Bonds. In the event that a notice of redemption of Series 2011A-1 Bonds contains such a condition and such moneys are not so received, the redemption of such Series 2011A-1 Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the persons who received such notice of redemption and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of Series 2011A-1 Bonds pursuant to such notice of redemption.

Any notice of redemption mailed as provided in the Indenture will be conclusively presumed to have been given, whether or not actually received by any Owner.

See the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” for information with respect to notice of Unscheduled Mandatory Tenders.

Allocation of Credits for Purchased or Redeemed Series 2011A-1 Bonds

Except as otherwise provided in the Indenture, the principal amount of any Series 2011A-1 Bonds purchased and cancelled by the District, or redeemed by the District, will be credited proportionally to all

Improvement Districts and the Included Amount for each Improvement District will be reduced by such Improvement District's Included Percentage (calculated immediately before such purchase or redemption) of the purchased or redeemed Series 2011A-1 Bonds.

In the event that Series 2011A-1 Bonds are purchased for cancellation or redeemed with funds provided by one or more Improvement Districts other than funds provided proportionately with all other Improvement Districts, the principal amount of any Series 2011A-1 Bonds purchased and cancelled by the District, or redeemed by the District, will be credited proportionally to all such contributing Improvement Districts and the Included Amount for each such Improvement District will be reduced by such Improvement District's proportional contribution to the purchase price of such purchased Series 2011A-1 Bonds and the Redemption Price of such redeemed Series 2011A-1 Bonds and the Included Percentage (calculated immediately before such purchase or redemption) of the purchased or redeemed Series 2011A-1 Bonds.

Immediately following each purchase of Series 2011A-1 Bonds by the District for cancellation and each redemption of Series 2011A-1 Bonds and the allocation of credits in connection with such purchase and redemption in accordance with the provisions of the Indenture, as applicable, the Included Percentages for all Improvement Districts will be recomputed for all purposes after such redemption in the following manner:

$$\frac{\text{Improvement District's Included Amount after purchase or redemption}}{\text{Total Amount of Outstanding Series 2011A-1 Bonds after purchase or redemption}} = \text{Included Percentage, as adjusted}$$

Book-Entry Only System

One fully-registered Series 2011A-1 Bond has been issued in the outstanding principal amount of the Series 2011A-1 Bonds. The Series 2011A-1 Bonds are registered in the name of Cede & Co. and have been deposited with DTC. So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series 2011A-1 Bonds, all payments of principal, Purchase Price and Redemption Price of and interest on the Series 2011A-1 Bonds will be made directly to DTC. Disbursement of such payments to the DTC Participants will be the responsibility of DTC. Disbursement of such payments to the Beneficial Owners of the Series 2011A-1 Bonds will be the responsibility of the DTC Participants as more fully described herein. See Appendix E—“BOOK-ENTRY SYSTEM.”

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) for the Series 2011A-1 Bonds. In that event, the Series 2011A-1 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal, Purchase Price, Redemption Price and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments with respect to the Series 2011A-1 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Remarketing Statement. See Appendix E hereto for additional information concerning DTC.

SECURITY FOR THE SERIES 2011A-1 BONDS

General

Sources of Payment. The Series 2011A-1 Bonds constitute the consolidated, several general obligations of the Improvement Districts payable from: (i) Assessment Proceeds collected from within each

Improvement District and applied by the District to pay such Improvement District's Included Amount of the principal, Purchase Price and Redemption Price of, and interest on, Outstanding Series 2011A-1 Bonds; (ii) Net Revenues of the District; and (iii) certain monies and investment earnings in certain funds and accounts created under the Indenture. See the caption "—Pledge of Assessment Proceeds and Revenues." The District currently expects to pay a portion of scheduled debt service on the Series 2011A-1 Bonds from a combination of Assessment Proceeds and Net Revenues and, to the extent that remarketing proceeds are insufficient, to pay the Purchase Price of the Series 2011A-1 Bonds from Net Revenues.

Authority for Issuance. Elections were held in Improvement District Nos. 105, 113, 213 and 250 at which the qualified voters within each such improvement district authorized the District to incur an indebtedness and issue general obligation bonds for each respective improvement district. See Appendix A—"IRVINE RANCH WATER DISTRICT" for a discussion of the bond authorization, amount of outstanding bonds and remaining bond authorization for each of the Improvement Districts. The Series 2011A-1 Bonds are authorized for issuance pursuant to the Act and all laws of the State amendatory thereof or supplemental thereto.

Covenant to Collect Assessment Proceeds. The District has covenanted in the Indenture that, to the extent necessary to provide Assessment Proceeds sufficient to pay when due, together with the other funds available for such payment, the principal of and interest on the Included Amount for each respective Improvement District, the District will: (a) fix and collect, or cause the fixing and collection of, *ad valorem* assessments on taxable land within the applicable Improvement District; (b) pursue any remedy available to collect, or cause the collection of, delinquent *ad valorem* assessments and apply amounts realized from the sale of any property for the enforcement of delinquent *ad valorem* assessments to the payment of principal of and interest on the Included Amount of Series 2011A-1 Bonds of the applicable Improvement District; or (c) in its discretion, impose and collect, or cause the imposition and collection of In Lieu Charges for water or sewer service, as applicable, in the applicable Improvement District in lieu of *ad valorem* assessments.

Revenue Rate Covenant. The District has also covenanted in the Indenture, to the fullest extent permitted by law, to fix, prescribe and collect Revenues which, together with any *ad valorem* assessments available to pay Debt Service on Parity Obligations which are not applied as a credit against Debt Service, will be at least sufficient to yield during each Fiscal Year Net Revenues which are at least equal to 125% of Aggregate Debt Service payable during such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

Notwithstanding the foregoing, so long as the Installment Sale Agreement, dated as of February 1, 2010 (the "2010 Installment Sale Agreement"), by and between the District and the Irvine Ranch Water District Water Service Corporation remains in effect, the District will need to comply with the requirements set therein regarding the rate covenant, which are identical to those set forth in the prior paragraph except that the Assessment Proceeds (and any assessment proceeds related to other Parity Obligations) which are applied as a credit to Debt Service above are included as revenues for purposes of such calculation and the definition of Aggregate Debt Service in the 2010 Installment Sale Agreement does not provide an offset for debt service paid from Assessment Proceeds (and any assessment proceeds related to other Parity Obligations) associated with Revenue Enhancement Agreements. In addition, certain of the Prior Reimbursement Agreements described under the caption "—Existing Parity Obligations" related to outstanding *ad valorem* assessment bonds of the District, and certain swap agreements entered into by the District, have covenants related to the setting of rates and charges with which the District is contractually obligated to comply.

Additional Covenants. See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" under the caption "CERTAIN COVENANTS" for a summary of additional covenants of the District under the Indenture.

Pledge of Trust Estate. Pursuant to the Indenture, the District has pledged the Trust Estate thereunder to secure the payment of the Series 2011A-1 Bonds issued thereunder. The “Trust Estate” under the Indenture consists of the following:

(A) The Bond Payment Fund (defined below) established under the Indenture, including all accounts in such fund, and all of the monies in such fund and accounts and the investments, if any, thereof, and all income and proceeds derived from such investments; and

(B) Subject to the application on the terms and conditions contained in the Indenture, Revenues of the District.

Pledge of Assessment Proceeds and Revenues

Subject to the application of the Revenues on the terms and conditions provided in the Indenture, Revenues have been irrevocably pledged to the payment when due of the principal, Purchase Price and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds, which pledge will be on a parity with any pledge of Revenues securing other Parity Obligations. Such pledge constitutes a pledge of and charge and lien upon the Revenues for the payment of the principal, Purchase Price upon the Scheduled Mandatory Tender and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds and all other Parity Obligations in accordance with the terms of the Indenture and the Series 2011A-1 Bonds after payment from the Revenues of the Operation and Maintenance Expenses, and the funding of contingency reserves therefor, as provided in the Indenture.

THE SERIES 2011A-1 BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA OTHER THAN THE DISTRICT AND THE IMPROVEMENT DISTRICTS AS PROVIDED IN THE INDENTURE. NO FUNDS OF THE DISTRICT OR THE IMPROVEMENT DISTRICTS, OTHER THAN THE FUNDS INCLUDED IN THE TRUST ESTATE, ARE LIABLE FOR THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS. EXCEPT AS PROVIDED IN THE INDENTURE WITH RESPECT TO THE TRUST ESTATE, NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT IS LIABLE FOR OR PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, THE SERIES 2011A-1 BONDS.

Assessment Proceeds. Assessment Proceeds means, with respect to any Improvement District: (i) *ad valorem* assessments on taxable land in such Improvement District levied pursuant to the Act; (ii) In Lieu Charges, consisting of water or sewer charges, as applicable, which in the discretion of the Board of Directors of the District are fixed and collected in an Improvement District in lieu of *ad valorem* assessments pursuant to the Act; and (iii) proceeds from the sale of property in such Improvement District for the enforcement of delinquent assessments pursuant to the Act.

Net Revenues. Net Revenues for any period consist of the Revenues of the District less the Operation and Maintenance Expenses of the District for such period. “Revenues” means:

(1) The water, sewer and reclaimed water rates and charges imposed by the District in connection with providing water, sewer and reclaimed water services to retail customers through the Operating Systems (as such term is defined in the Indenture), including commodity, service, standby, material treatment and connection charges, except: (i) such water, sewer and reclaimed water rates and charges levied in lieu of *ad valorem* assessments pursuant to Sections 36425 and 35975 of the Act; and (ii) customer deposits (together, the “Utility Rates and Charges”); and

(2) Other revenues of the District, including, without limiting the generality of the foregoing, the proceeds of any stand-by or natural treatment, connection and water availability charges;

together with the District's share of the Orange County, California 1% *ad valorem* property tax (to the extent not applied by the District to pay principal of and interest on Secured Bonds) and Investment Income;

but excluding in all cases: (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District; (ii) any proceeds of taxes or *ad valorem* assessments restricted by law to be used by the District to pay bonds issued by the District, and the proceeds of any actions to enforce delinquent *ad valorem* assessments so restricted; and (iii) water, sewer and reclaimed water rates and charges levied in lieu of *ad valorem* assessments pursuant to Sections 36425 and 35975 of the Act.

"Operation and Maintenance Expenses" consist of the costs and expenses paid or incurred by the District for operating and maintaining the Operating Systems (as such term is defined in the Indenture) including, but not limited to: (a) all costs of water generated or purchased by the District for resale; (b) all costs and expenses of providing services and commodities through or with the Operating Systems; (c) all costs and expenses of management of the Operating Systems; (d) all costs and expenses of maintenance and repair of, and other expenses necessary or appropriate in the judgment of the District to maintain and preserve, any of the Operating Systems in good repair and working order; (e) all administrative and general expenses, such as salaries and wages of employees, overhead, taxes (if any), insurance premiums, retirement benefits and health care benefits; (f) all deposits to be made to a contingency reserve for Operation and Maintenance Expenses; (g) all deposits to be made to a rebate fund established with respect to Parity Obligations to provide for any rebate to the United States required to maintain the tax-exempt status of interest on such Parity Obligations; (h) any cost or expense paid or incurred by the District to comply with requirements of law applicable to any of the Operating Systems or the ownership or operation thereof or any activity in connection therewith; and (i) any other cost or expense which, in accordance with Generally Accepted Accounting Principles, is to be treated as an expense of operating or maintaining any of the Operating Systems; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, and amortization of intangibles.

Net Revenues collected within any improvement district of the District, including the Improvement Districts, are available to make debt service payments on the Series 2011A-1 Bonds. See the caption "SECURITY FOR THE SERIES 2011A-1 BONDS."

Allocation of Monies Under the Indenture

Allocation of Revenues. In order to carry out and effectuate the pledge and lien on the Revenues contained in the Indenture, the District has agreed and covenanted in the Indenture that all Revenues received by it will be deposited when and as received in the Revenue Fund, which fund has been previously established by the District and which fund the District has agreed and covenanted to maintain as a special fund, separate and apart from other moneys of the District so long as any Series 2011A-1 Bond remains Outstanding. All Revenues will be applied in the following order of priority:

First: to the payment of Operation and Maintenance Expenses (other than the funding of contingency reserves for Operation and Maintenance Expenses) as they become due and payable.

Second: to the funding of contingency reserves for Operation and Maintenance Expenses.

Third: (i) two Business Days before each Interest Payment Date, to a deposit to the Bond Payment Fund in an amount equal to the transfer to the Interest Account and Principal Account to be made on such Interest Payment Date; and (ii) on each date, other than an Interest Payment Date, on which the principal of an Outstanding Series 2011A-1 Bond becomes due, whether by mandatory redemption, acceleration, or otherwise, to a deposit to the Bond Payment Fund in an amount equal to the principal and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds coming due on such date. Notwithstanding the provisions of the immediately preceding sentence, no such deposit to the Bond Payment Fund need be made by the District to the extent that the Trustee then holds, or is concurrently receiving from the District from

Assessment Proceeds or other sources that do not constitute Revenues, moneys for such purpose in the Bond Payment Fund, or being deposited in the Bond Payment Fund, available to pay the principal and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds to be paid with such deposit. The District will also pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations (other than the principal and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds), without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest (including purchase price) on Parity Obligations (other than the principal and Redemption Price of, and interest on, the Outstanding Series 2011A-1 Bonds) in accordance with the terms of such Parity Obligations.

Fourth: the District will transfer or cause to be transferred to any applicable reserve fund or account for any Parity Obligations for which a separate reserve has been funded, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations.

Fifth: to any lawful purpose of the District, including the payment of any Subordinate Obligations in accordance with the instruments authorizing such Subordinate Obligations, which application will be free and clear of the pledge and lien on Revenues created by the Indenture.

Bond Payment Fund. There has been established and created a fund with the Trustee under the Indenture designated the “Bonds of Irvine Ranch Water District, Series 2011A-1 Bond Payment Fund” (the “Bond Payment Fund”). The Trustee will transfer money contained in the Bond Payment Fund to the accounts described below at the following times in the manner provided in the Indenture, which accounts the Trustee has agreed to establish and maintain so long as the Indenture is not discharged in accordance with the provisions thereof, and each such account constitutes a trust fund for the benefit of the Owners of the Series 2011A-1 Bonds, and the money in each such account will be disbursed only for the purposes and uses authorized in the Indenture.

Interest Account. The Trustee, on each Interest Payment Date, will deposit in the Interest Account from money in the Bond Payment Fund an amount which, together with amounts already on deposit in the Interest Account, will be sufficient to pay interest on the Outstanding Series 2011A-1 Bonds due on such Interest Payment Date. Money in the Interest Account will be used and withdrawn by the Trustee on each Interest Payment Date solely for the payment of interest on the Outstanding Series 2011A-1 Bonds then due.

Principal Account. The Trustee, on each Principal Payment Date, will deposit in the Principal Account from money in the Bond Payment Fund such amount as is sufficient to pay the principal of the Outstanding Series 2011A-1 Bonds due on such Principal Payment Date. Money in the Principal Account will be used and withdrawn by the Trustee on each Principal Payment Date solely for the payment of the principal of Outstanding Series 2011A-1 Bonds then due.

Redemption Account. The Trustee will deposit in the Redemption Account amounts received from the District to pay the Redemption Price of Series 2011A-1 Bonds to be redeemed. Money in such Redemption Account will be used and withdrawn by the Trustee on each Redemption Date solely for the payment of the Redemption Price of Outstanding Series 2011A-1 Bonds upon the redemption thereof.

Existing Parity Obligations

The District has entered into certain Parity Obligations described below. The reimbursement agreements described below relate to outstanding *ad valorem* assessment bonds:

(i) the Fifth Amended and Restated Reimbursement Agreement, dated as of April 1, 2011, by and between the District and Bank of America, N.A.;

(ii) the three Reimbursement Agreements, each dated as of June 1, 2012, by and between the District and The Bank of New York Mellon;

(iii) the two Reimbursement Agreements, each dated as of April 1, 2011, by and between the District and Sumitomo Mitsui Banking Corporation;

(iv) the Amended and Restated Reimbursement Agreement, dated as of April 1, 2011, by and between the District and U.S. Bank National Association;

(v) the State Revolving Loan Contract No. 6-817-550-0, dated June 26, 1997, by and between the District and the State Water Resources Control Board, as amended and supplemented, currently outstanding in the aggregate principal amount of \$1,164,872;

(vi) the 2010 Installment Sale Agreement, securing the District's Certificates of Participation, Irvine Ranch Water District Refunding Series 2010 currently outstanding in the aggregate principal amount of \$72,490,000;

(vii) the District's Series 2010B Bonds currently outstanding in the aggregate principal amount of \$175,000,000; and

(viii) the Series 2011A-2 Bonds currently outstanding in the aggregate principal amount of \$37,360,000.

The agreements described in clauses (i) through (iv) above are collectively referred to as the "Prior Reimbursement Agreements."

There are currently no reimbursement obligations outstanding under the Prior Reimbursement Agreements, although the District may incur reimbursement obligations under the Prior Reimbursement Agreements as provided therein.

For a summary of the stated amount of each letter of credit associated with the Prior Reimbursement Agreements, see Appendix A—"IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Parity Obligations."

Limitations on Parity and Superior Obligations

Obligations Superior to Series 2011A-1 Bonds. The District has covenanted in the Indenture that it will not create any pledge of, lien on or charge upon the Revenues with a priority prior to or senior to the pledge of the Revenues securing the Series 2011A-1 Bonds and the Parity Obligations.

Obligations on a Parity with the Series 2011A-1 Bonds. Under the Indenture, the District may at any time issue additional Parity Obligations; provided:

(a) The Net Revenues, plus any *ad valorem* assessments available to pay Debt Service on Parity Obligations which are not applied as a credit against Debt Service, for the Applicable Fiscal Year, as evidenced by both a calculation prepared by the District and a special report on such calculation prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on file with the District, are at least equal to 125% of the Aggregate Debt Service for the Applicable Fiscal Year; and

(b) Either of (1) or (2) below:

(1) The Net Revenues for the Applicable Fiscal Year, plus any adjustments to Net Revenues to give effect as of the first day of the Applicable Fiscal Year to increases or decreases in rates and charges of the District approved and in effect as of the date of calculation, plus any *ad valorem* assessments available to pay Debt Service on Parity Obligations which are not applied as a credit against Debt Service, produce an amount at least equal to 125% of the sum of: (i) the Aggregate Debt Service for such Applicable Fiscal Year; plus (ii) the Debt Service which would have accrued on any Parity Obligations issued since the end of the Applicable Fiscal Year assuming such Parity Obligations had been issued at the beginning of the Applicable Fiscal Year; plus (iii) the Debt Service which would have accrued had the additional Parity Obligations to be issued been issued at the beginning of the Applicable Fiscal Year; or

(2) The estimated Net Revenues for each Fiscal Year in the Test Period, plus an allowance for the estimated Net Revenues for each Fiscal Year in the Test Period arising from the completion of any uncompleted projects during the Test Period, plus any *ad valorem* assessments available to pay Debt Service on Parity Obligations which are not applied as a credit against Debt Service, plus any increase in the income, rents, fees, rates and charges estimated to be received by the District and which are economically feasible and reasonably considered necessary based on projected operations for the Test Period, produce an amount in each Fiscal Year in the Test Period which is at least equal to 125% of the sum of: (i) Aggregate Debt Service in each such Fiscal Year on all then Outstanding Parity Obligations; plus (ii) the Debt Service in each such Fiscal Year on the additional Parity Obligations to be issued; plus (iii) the Debt Service in each such Fiscal Year on any additional Parity Obligations estimated by the District to be required to complete all uncompleted projects for which Parity Obligations have been or are being issued, assuming that all such additional Parity Obligations to complete uncompleted projects (other than the Parity Obligations to be issued) have maturities, interest rates and proportionate principal repayment provisions similar to the Parity Obligations then being issued.

(c) Notwithstanding the provisions of clauses (a) and (b), the District may at any time issue additional Parity Obligations to refund Outstanding Parity Obligations without satisfying any of the conditions set forth in such subsections if Aggregate Debt Service after the issuance of such additional Parity Obligations in each Fiscal Year in the Refunding Test Period is not greater than the Aggregate Debt Service in each such Fiscal Year before the issuance of such additional Parity Obligations.

(d) Notwithstanding the provisions of clauses (a) and (b), the District may at any time issue a Parity Obligation constituting a Credit Support Agreement securing a Parity Obligation without satisfying any of the conditions set forth in such subsections if such Credit Support Agreement: (i) replaces a Prior Reimbursement Agreement (or a successor to a Prior Reimbursement Agreement) and does not increase the principal of bonds secured by the letter of credit relating to such Prior Reimbursement Agreement; or (ii) the Parity Obligations secured by the Credit Support Instrument relating to such Credit Support Agreement have been issued in accordance with clauses (a) and (b).

Notwithstanding the foregoing, so long as the 2010 Installment Sale Agreement remains outstanding, the District will need to comply with the requirements set therein for the issuance of Parity Obligations, which are identical to those set forth in clauses (a), (b) and (c) above except that the Assessment Proceeds (and any assessment proceeds related to other Parity Obligations) which are applied as a credit to Debt Service in clauses (a) and (b) above are included as revenues for purposes of such calculation and the definition of Aggregate Debt Service in the 2010 Installment Sale Agreement does not provide an offset for debt service paid from Assessment Proceeds (and any assessment proceeds related to other Parity Obligations) associated with Revenue Enhancement Agreements. In addition, certain of the Prior Reimbursement Agreements related to outstanding *ad valorem* assessment bonds of the District, and certain swap agreements entered into by the District, have conditions precedent to the issuance of Parity Obligations that are more stringent than those listed above.

Obligations Subordinate to the Series 2011A-1 Bonds. Nothing in the Indenture prevents the District from issuing Subordinate Obligations or granting a pledge of, lien on or charge upon the Revenues in all respects junior and subordinate to the payment of amounts due with respect to Parity Obligations to secure any such Subordinate Obligations. Nothing in the Indenture limits the District's payment of the Operation and Maintenance Expenses prior to the payment of the Parity Obligations as provided in the Indenture.

Investment of Monies in Funds and Accounts Under the Indenture

So long as the Series 2011A-1 Bonds are Outstanding and no Event of Default has occurred and is continuing, monies on deposit to the credit of the funds held by the Trustee under the Indenture (except for the Remarketing Proceeds Account in the Purchase Fund) will, at the written request of the District, be invested by the Trustee in Permitted Investments. In the absence of written instruction from the District, the Trustee is directed to hold available funds uninvested. The Trustee is entitled to rely conclusively on said instructions for purposes of the Indenture and will have no duty to monitor the compliance thereof with the restrictions set forth in the Indenture. Subject to the limitations contained in Government Code Section 53601, monies in the funds held by the District will be invested by the District in Permitted Investments. All such investments will have maturity dates, or will be subject to redemption, at the option of the holder, on or prior to the dates the monies invested therein will be needed for the purposes of such funds. See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" under the caption "DEFINITIONS" for the definition of Permitted Investments under the Indenture.

The Trustee may commingle any of the moneys held by it under the Indenture. The Trustee may present for redemption or sell any such deposit or investment whenever necessary in order to provide money to meet any payment of the money so deposited or invested. Any interest or profits on deposits and investments in the Bond Payment Fund received by the Trustee will be deposited in the Interest Account as a credit against interest to come due on the Outstanding Series 2011A-1 Bonds.

See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" under the caption "FUNDS AND ACCOUNTS—Investments."

THE IRVINE RANCH WATER DISTRICT

For a description of the District and each of the Improvement Districts see Appendix A—"IRVINE RANCH WATER DISTRICT."

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate dated April 15, 2011 (the "Continuing Disclosure Certificate") for the benefit of the Owners and beneficial owners of the Series 2011A-1 Bonds to provide certain financial information and operating data relating to the District (each an "Annual Report") by not later than 270 days following the end of the District's fiscal year (which fiscal year ends on June 30), commencing with the Annual Report for Fiscal Year 2012, and to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by the District with EMMA for the purpose of S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The notices of enumerated events will be filed by the District with EMMA. The specific nature of the information to be made available and to be contained in the notices of enumerated events is contained in Appendix F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Remarketing Agent, as Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) in complying with the Rule. For the last five years the District has complied in all material aspects with its filing obligations pursuant to undertakings entered into pursuant to the Rule.

See the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District Nos. 105 and 250 into Improvement

District Nos. 125 and 225, respectively. As a result of such consolidations, Improvement District Nos. 125 and 225 are the legal successors to Improvement District Nos. 105 and 250, respectively, and Improvement District Nos. 105 and 250 no longer exist. Accordingly, beginning in Fiscal Year 2014, the Annual Reports will contain information relating to Improvement District Nos. 125 and 225 rather than for Improvement District Nos. 105 and 250.

LITIGATION

There is no action, suit or proceeding known to be pending, or to the knowledge of the District, threatened, in any way contesting or affecting the validity of, the Series 2011A-1 Bonds or the Indenture. There is no litigation known to be pending, or to the knowledge of the District, threatened, questioning the existence of the District or the title of the officers of the District to their respective offices.

There exist lawsuits and claims against the District, which are incidental to the ordinary course of operations of the District's water and sewer systems and related activities. In the view of the District's management and General Counsel, there is no litigation, present or pending, or to the knowledge of the District, threatened, which will individually or in the aggregate materially impair the District's ability to service its indebtedness or which will have a material adverse effect on the business operations of the District.

RATINGS

On April 12, 2011, Standard & Poor's Ratings Group ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") assigned the Series 2011A-1 Bonds the short-term ratings of "A-1+", "VMIG 1" and "F1+", respectively, and Moody's and Fitch assigned the Series 2011A-1 Bonds the long-term ratings of "Aa1" and "AAA", respectively. S&P affirmed the short-term rating of the 2011A-1 Bonds of "A-1+" on October 11, 2013. Although S&P has not assigned a long-term rating to Series 2011A-1 Bonds, S&P affirmed the long-term rating of "AAA" on the District's Series 2010B Bonds, which are Parity Obligations, on October 11, 2013. The District has made no attempt to seek an update to or affirmation of such ratings from the rating agencies in connection with the remarketing of the Series 2011A-1 Bonds on February 14, 2014. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from the applicable rating agency. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2011A-1 Bonds.

TAX MATTERS

Original Opinions

On April 15, 2011, Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, Co-Bond Counsel to the District ("Co-Bond Counsel"), in connection with the issuance of the Series 2011A-1 Bonds, delivered their respective opinions to the effect that, based on 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 Series 2011A-1 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. It was the further opinion of Co-Bond Counsel, as of April 15, 2011, that such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Bond Counsel observed that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the opinions of Co-Bond Counsel delivered at the original issuance of the Series 2011A-1 Bonds is set forth in Appendix D hereto.

No Updated Co-Bond Counsel Opinions

Co-Bond Counsel have not taken, and do not intend to take, any action to update their respective original opinions or to determine if interest on the Series 2011A-1 Bonds is presently excluded from gross income for federal income tax purposes or exempt from State of California personal income taxes.

General Considerations

Notwithstanding the foregoing, investors should be aware of the following information.

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 Series 2011A-1 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2011A-1 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 Series 2011A-1 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2011A-1 Bonds. The opinions of Co-Bond Counsel delivered in connection with the initial issuance of the Series 2011A-1 Bonds assumed the accuracy of these representations and compliance with these covenants. Co-Bond Counsel have 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 Co-Bond Counsel's attention after the date of issuance of the Series 2011A-1 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2011A-1 Bonds. Accordingly, the opinions of Co-Bond Counsel delivered in connection with the initial issuance of the Series 2011A-1 Bonds are not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Co-Bond Counsel have rendered opinions that interest on the Series 2011A-1 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 amounts treated as interest on, the Series 2011A-1 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. Co-Bond Counsel express 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 Series 2011A-1 Bonds to be subject, directly or indirectly, in whole or in part, 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. For example, legislative proposals have been made in recent years that would limit the exclusion from gross income of interest on obligations like the Series 2011A-1 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. 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 Series 2011A-1 Bonds. Prospective purchasers of the remarketed Series 2011A-1 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Co-Bond Counsel express no opinion.

The opinions of Co-Bond Counsel delivered in connection with the initial issuance of the Series 2011A-1 Bonds were based on current legal authority existing as of April 15, 2011, covered certain matters not directly addressed by such authorities, and represented Co-Bond Counsel's judgment as to the proper treatment of the Series 2011A-1 Bonds for federal income tax purposes. They are not binding on the Internal Revenue Service (the "IRS") or the courts. Furthermore, Co-Bond Counsel cannot give and have not given any opinion or assurance about the past or future activities of the District, or about the effect of future changes in the Code,

the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Co-Bond Counsel's engagement with respect to the Series 2011A-1 Bonds ended on April 15, 2011 with the original issuance of the Series 2011A-1 Bonds. Unless separately engaged, Co-Bond Counsel are not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2011A-1 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District 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 District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2011A-1 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 Series 2011A-1 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

REMARKETING AGENT

Goldman, Sachs & Co. has been appointed to serve as Remarketing Agent for the Series 2011A-1 Bonds. The Remarketing Agent will carry out the duties and obligations provided for the Remarketing Agent under and in accordance with the provisions of the Indenture and the Remarketing Agreement, dated as of April 1, 2011, by and between the District and Goldman, Sachs & Co.

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

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

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the reoffering of the Series 2011A-1 Bonds will be passed upon by Orrick, Herrington & Sutcliffe LLP, as Co-Bond Counsel to the District, by Bowie, Arneson, Wiles & Giannone, as Co-Bond Counsel to the District and general counsel to the District, and for the Remarketing Agent by Stradling Yocca Carlson & Rauth, a Professional Corporation.

INDEPENDENT ACCOUNTANTS

The financial statements of the District at June 30, 2013, included in Appendix B to this Remarketing Statement, have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor"), as set forth in their report dated December 9, 2013, which also appears in Appendix B. The Auditor has not reviewed the contents of this Remarketing Statement, and the District has not sought the Auditor's consent to the inclusion of the Auditor's audit letter attached to the District's financial statements in this Remarketing Statement.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof and do not purport to be complete or definitive and reference is hereby made to such documents and reports for a full and complete statement of the contents thereof.

Any statements in this Remarketing Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Statement is not to be construed as a contract or agreement between the District and registered owners or beneficial owners of any of the Series 2011A-1 Bonds. The delivery and distribution of this Remarketing Statement have been duly authorized by the District.

IRVINE RANCH WATER DISTRICT

By: _____ /s/ Robert Jacobson
Treasurer

APPENDIX A

IRVINE RANCH WATER DISTRICT

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INTRODUCTION

The following sets forth certain information relating to the Irvine Ranch Water District (the “District”) and certain of its improvement districts.

The District’s projections in Tables 12, 15, 17, 19, 23, 25, 27, 30 and 32 of this Appendix A (the “Projections”) are derived from historic trends and experience and an internal financial model known as the “District Enterprise Model.” The District Enterprise Model is a capital planning and budgeting tool used by the District to identify future infrastructure funding requirements, and to aid in setting water and sewer rates, charges and connection fees. Key inputs utilized in the District Enterprise Model include assumptions based on historical experience and other factors regarding the District’s cost of borrowing, the rate of return on District investments, inflation, project costs, property tax receipts and the timing and amount of future bond sales, but the primary input is the pace and scope of real estate development activity within the District’s service area. The District is in regular contact with major Orange County (the “County”) real estate development companies to assess and update this information for use in the District Enterprise Model.

The Projections constitute forward-looking statements. No assurance can be given that the future results reflected in the Projections and otherwise discussed herein will be achieved, and actual results may differ materially from the Projections. As noted above, the Projections rely heavily on certain assumptions regarding the pace and scope of real estate development activity within the District’s service area. Such activity may be affected by a variety of factors, such as problems with subprime mortgage loans, including increases in delinquencies and foreclosures and significant write-downs in value reported by holders of pooled securities backed by subprime mortgages, as well as tighter lending standards for real estate loans generally. Real estate development activity also may be affected by general economic conditions, which currently reflect high unemployment rates, higher energy and commodity costs and volatile financial markets. The District has attempted to reflect such conditions in the Projections, but is unable to predict with certainty the level of future real estate development activity or the other factors affecting the Projections.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California (the “State”). The various opinions of counsel that were delivered with respect to such documents, including the opinions of Co-Bond Counsel (the forms of which are attached to the Remarketing Statement as Appendix E), were similarly qualified.

Unless the context otherwise requires, all defined terms used herein shall have the same meanings set forth in the Remarketing Statement, except that the term “Improvement Districts” as used in this Appendix A refers to all seven water improvement districts and ten sewer improvement districts of the District.

THE IRVINE RANCH WATER DISTRICT

General

The District was established in 1961 as a California Water District under the provisions of Section 34000 *et seq.* of the California Water Code (the “Act”). As a special district, the District focuses on four primary services – providing potable water, collecting and treating wastewater, producing and distributing recycled and other non-potable water, and implementing urban runoff treatment programs.

The District serves a 178-square-mile area, which includes all of the City of Irvine and portions of the cities of Tustin, Newport Beach, Costa Mesa, Orange and Lake Forest, as well as certain unincorporated areas of the County. Extending from the Pacific Coast to the foothills, the District’s region is semi-arid with a mild

climate and an average annual rainfall of approximately 12 inches. The District serves a total estimated population of approximately 340,000 through approximately 101,020 water and approximately 96,643 sewer service and recycled water connections. The number of service connections has increased by approximately 18% over the last decade.

The District builds and maintains significant capital infrastructure in order to serve its customers and is organized into Improvement Districts in order to allocate funding responsibility for capital facilities to the area which will benefit from such capital facilities and to separate areas on the basis of projected timing of development. This allows capital facilities construction to be matched to the development approval decisions of the respective local agencies that make them. Some of the Improvement Districts share in the funding of the District's regional facilities which such Improvement Districts use or will use in common, such as major water importation facilities and water and wastewater treatment plants. The District recently undertook a process to review its current capital funding plan, resulting in a master consolidation and combination of several Improvement Districts in November 2013. As a result of such consolidation, the District now has a total of seven water Improvement Districts and ten sewer Improvement Districts which cover specific areas within the District's boundaries, each of which is governed in accordance with the Act. See the Remarketing Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the effect on the Series 2011A-1 Bonds of the consolidation and combination of such Improvement Districts.

As of December 31, 2013: (i) Improvement District No. 125 had \$322,089,600 aggregate principal amount of authorized but unissued ad valorem assessment bonds and \$195,652,000 aggregate principal amount of outstanding ad valorem assessment bonds, including the Series 2011A-1 Bonds; and (ii) Improvement District No. 225 had \$406,895,000 aggregate principal amount of authorized but unissued ad valorem assessment bonds and \$244,963,000 aggregate principal amount of outstanding ad valorem assessment bonds, including the Series 2011A-1 Bonds. See Table 3 under the caption "—Outstanding Indebtedness—Improvement District Indebtedness."

The principal office of the District is located at 15600 Sand Canyon Avenue, Irvine, California 92618.

Board of Directors and General Manager

Pursuant to legislation chaptered in 1980, the District's Board of Directors consists of five Directors elected by resident voters for staggered four-year terms. The policies of the Board of Directors are administered by the General Manager of the District.

Board of Directors. The present Directors are:

Steven E. LaMar. Mr. LaMar was appointed to the District's Board of Directors in 2009 and has been elected to a subsequent term. Mr. LaMar currently serves as President and served as Vice President of the Board of Directors in 2011, 2012 and 2013. He is a water policy and planning expert with more than 20 years of experience on statewide business and industry committees and has directly participated in many major water policy forums. Mr. LaMar currently serves on the District's Finance and Personnel Committee and Water Resources Policy and Communications Committee. Mr. LaMar has served on statewide task forces and advisory committees on drought planning, desalination, the California Bay-Delta, the California Water Plan and on landscape water conservation issues. Mr. LaMar is president and owner of LegiSight, LLC, located in Tustin, California, and has also been a principal for Spinner LaMar Associates since 1993. He has served as a water policy leader in the California Building Industry Association for over 20 years. Mr. LaMar holds a bachelor's degree in political science from Pittsburg State University (Kansas) and a certificate from the Environmental Management Institute, the U.S. Environmental Protection Agency environmental training program administered by the University of Southern California. Mr. LaMar's current term ends in December 2014.

Peer Swan. Mr. Swan was elected to the District's Board of Directors in 1979. Mr. Swan currently serves as Vice President and chairman of the Finance and Personnel Committee. He previously served as President from December 1981 until December 1995 and again in 2006. Mr. Swan's community and professional involvement includes service as President of the Board of San Joaquin Wildlife Sanctuary and member of the Steering Committee of the Southern California Water Dialogue Committee. Mr. Swan is active in the Association of California Water Agencies, where he serves on the Board of Directors, on its seven-person Executive Board and on several committees. Mr. Swan has also been active in the California Association of Sanitation Agencies (where he is Vice Chairman of the Directors' Committee), the Newport Chamber of Commerce and the Orange County Business Council. Mr. Swan was the Treasurer of the Pacific Scientific Company prior to its acquisition in early 1998 and a member of the Board of Directors of the Southern California Bank and its parent SC Bancorp until its acquisition in 1997. He has also served as a board member of the YMCA of Orange County and the Orange Coast College Foundation, where he was the founding Treasurer of the Board. He has served as a Director of the Orange County Sanitation District for 15 years and was Vice Chairman for six years. Mr. Swan was also a Founding Director of the Board of the National Water Research Institute and was Chairman for four years. He is a longtime member of both the National Audubon Society and its local chapter (Sea & Sage). He was also the President of the Board of the Water Advisory Committee of Orange County in 2007 and 2008. Mr. Swan's current term ends in December 2014.

Douglas J. Reinhart. Mr. Reinhart was appointed to the District's Board of Directors in 2004 to fill a vacancy and has since been elected to subsequent terms. Mr. Reinhart served as President in 2007, 2009, 2010 and 2013. He currently serves on the District's Engineering and Operations Committee and Water Banking Committee. Mr. Reinhart is a registered civil engineer with over 30 years of experience in the private sector directing projects in water, wastewater and other infrastructure. Mr. Reinhart was the president and an owner of ASL Consulting Engineers before its acquisition by Tetra Tech in 1999. Mr. Reinhart then served as the Divisional Executive Vice President for Tetra Tech for the western United States before starting a consulting business in 2004. Mr. Reinhart holds a bachelor's degree in civil engineering from the Missouri School of Mines and Metallurgy. Mr. Reinhart has served on the Board of Trustees of the Southern California Water Committee, the American Water Works Association Desalination Committee and the Association of California Water Agencies Groundwater Committee and is a past member of the Board of Directors of the National WaterReuse Association. In addition, Mr. Reinhart is a member of the American Society of Civil Engineers and the American Public Works Association. Mr. Reinhart's current term ends in December 2014.

John B. Withers. Mr. Withers was initially appointed to the District's Board of Directors in 1989 to fill a vacancy and has since been elected to subsequent terms. Mr. Withers currently serves as Director of the Board and previously served as Vice President in 2012 and President in 2004. He also serves on the Asset Management Committee and the Engineering and Operations Committee. Mr. Withers is a partner with California Strategies, a strategic government relations firm in Irvine. In past positions, Mr. Withers has served as Vice President of Community Development for Lewis Operating Corporation and as Director of Water Resources for Psomas & Associates, a civil engineering and planning firm based in Costa Mesa. Mr. Withers has served as Director of Governmental Affairs for the Orange County Region of the Building Industry Association of Southern California and as a legislative advocate for Crocker Bank and a major trade association in Sacramento. Mr. Withers has served as Commissioner to the Orange County Local Agency Formation Commission since 1994. Mr. Withers also served as a member, including a term as chairman, of the Santa Ana Regional Water Quality Control Board, having been appointed by the Governor in 1992. Mr. Withers was a board member of the National Water Research Institute for six years and is the District's current representative. A native Southern Californian, Mr. Withers received his bachelor's degree from UCLA in economics with a specialization in urban studies in 1979 and received a master's degree in urban studies from Occidental College in 1988. Mr. Withers' current term ends in 2016.

Mary Aileen Matheis. Ms. Matheis was initially appointed to the District's Board of Directors in 1988 to fill a vacancy and has since been elected to subsequent terms. Ms. Matheis currently serves as a Director on the Board of Directors. Ms. Matheis served as President in 2001 and 2012 and as Vice President

in 2005 and 2011. Ms. Matheis is a practicing lawyer and member of the California Bar and is also admitted to practice in the Supreme Court of the United States and the United States Tax Court. Ms. Matheis holds a bachelor's degree and masters degree in Communications and she received her Juris Doctorate from Western State University School of Law and was admitted to the California Bar in 1982. Ms. Matheis' activities in other water areas include service on the Legal Affairs Committee of the Association of California Water Agencies and as a member of Independent Special Districts of Orange County Executive Committee. Ms. Matheis is a member of the Colorado River Water Users Association and the Colorado River Foundation. Ms. Matheis is also the District representative to the Independent Special Districts of Orange County and a board member of the Water Education Foundation. Ms. Matheis is active in the Orange County Bar Association, a member of the Real Estate Section Executive Committee and the Probate and Estate Planning Section. Ms. Matheis is also on the Orange County Assessment Appeals Panel for Property Tax Appeals. Ms. Matheis' current term ends in 2016.

General Manager. Paul A. Cook, the General Manager of the District, heads a staff of approximately 325 employees. Mr. Cook was appointed to this position in October 2011. Mr. Cook previously served as Interim General Manager from July to October 2011 and held the position of Assistant General Manager from 2004 to July 2011. Mr. Cook is a registered civil engineer with over 21 years of experience with water and wastewater systems in the public and private sectors. Prior to joining the District, he served as the Manager of Engineering for Central and West Basin Municipal Water Districts in Carson, California. He also served as the District Engineer for Los Alisos Water District in Lake Forest. In the private sector, Mr. Cook held engineering and project management positions with BFI Constructors and Turner Construction Company. He was elected to the Orange County Water District Board of Directors in 2002 and served for three years, representing communities in Irvine, Tustin and Newport Beach. Mr. Cook received his bachelor of science degree in Civil Engineering from the University of the Pacific, his masters of science degree in Civil Engineering from California State University of Long Beach and his masters in business administration from the University of California, Irvine.

Employees

The District currently employs approximately 325 persons, including full-time, part-time and temporary employees. On September 25, 2012, a one-year Memorandum of Understanding (the "2012 MOU") between the District and the Irvine Ranch Water District Employee Association (the "Association") was adopted, signed and approved. The District is currently negotiating the terms of a new Memorandum of Understanding with the Association and is operating under the terms of the 2012 MOU while such negotiations are ongoing. The Association currently represents 225 general employees of the District, of which 66 are voting members; supervisors and managers are unrepresented. The District has not experienced any strike or other labor actions.

Pension Benefits

CalPERS Plan. The District contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan for all of the District's full-time and certain of its temporary employees that have worked for the District for a total of over 1,000 hours. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the District. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The District currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the District's unfunded actuarial liability. For the fiscal years of the District ended June 30 ("Fiscal Year"), 2013 and 2012, the District's annual pension cost, as determined by an actuarial

valuation of the plan as of June 30, 2011 and 2010, respectively, was \$4,297,000 and \$4,321,000, respectively. Since 2009, the District has made contributions totaling approximately \$15,100,000 in excess of its annual required contributions to CalPERS to reduce its overall unfunded liability. For Fiscal Year 2014, the District's annual pension cost, as determined by an actuarial valuation of the plan as of June 30, 2012, is \$4,315,000 (assuming that the District elects the lump sum payment option). The District expects its contribution to equal or exceed such annual pension cost in Fiscal Year 2014. For Fiscal Year 2015, the District's annual pension cost, as determined by an actuarial valuation of the plan as of June 30, 2013, will be \$4,524,000 (assuming that the District elects the lump sum payment option).

Participants are required to contribute 8% of their annual covered salary under the CalPERS plan. In Fiscal Year 2011 and prior Fiscal Years, the District paid 7% ("Employer-Paid Member Contributions," or "EPMC") of such 8% contributions required of District employees on their behalf and for their account. From July 1, 2011 to March 2, 2012, the District paid between 2% and 5% of the contributions required of District employees on their behalf, depending upon job classification. Effective March 3, 2012, the District reduced its EPMC payments to between 0% and 3% of annual covered salary, depending on job classification. The District also increased employee contributions correspondingly to between 8% and 5% of annual covered salary. On September 24, 2012, the Board of Directors adopted a resolution to further reduce EPMC payments to no more than 2% of annual covered salary, depending upon job classification effective March 2, 2013. In addition, the Board of Directors adopted a resolution creating a second tier of CalPERS pension benefits for employees hired after September 29, 2012. The second benefit tier includes a reduced pension formula and a longer final compensation calculation period.

On September 12, 2012, the Governor of the State signed Assembly Bill 340 ("AB 340"), which implements pension reform in the State. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate (as described below) for such retirement systems; (ii) prohibits employers from paying EPMC to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; and (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period. The Board of Directors adopted a resolution creating a third tier of CalPERS pension benefits for employees hired after January 1, 2013 to comply with AB 340's compulsory reduced formula. Benefit provisions and all other requirements are established by State statute and the Board of Directors.

In addition to paying a percentage of the contributions required of District employees on their behalf, the District is required to contribute at an actuarially determined rate applied to annual covered payroll. The District's contribution rate for Fiscal Year 2013 was 16.106% and the District's contribution rate for Fiscal Year 2014 is 16.795%. The District's contribution rate for Fiscal Year 2015 has been established at 17.737%.

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

The staff actuaries at CalPERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered. The actuarial valuations express the District's required contribution rates in percentages of covered payroll, which percentages the District must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the District's contribution rate derived from the actuarial valuation as of June 30, 2012 will affect the District's Fiscal Year 2015 required contribution rate). CalPERS rules require the District to implement the actuary's recommended rates.

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

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return of 7.5%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies and actuarial assumptions. As described below, these policies and actuarial assumptions have changed significantly in recent years and could change or be modified further by CalPERS in the future. Certain significant recent changes in assumptions include the following:

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

- The annual assumed investment return decreased from 7.75% to 7.5%.
- The long term payroll growth assumption decreased from 3.25% to 3%.
- The inflation component of individual salary scales decreased from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 3% and an annual production growth of 0.25%.

On April 17, 2013, the CalPERS Board of Administration approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the District about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS' fiscal year 2008-09 market losses) of the District's plans in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes will be reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter.

The following table summarizes the District's annual required contributions (in thousands) for Fiscal Years 2009 through 2013:

TABLE 1
IRVINE RANCH WATER DISTRICT
Annual Required Contributions for CalPERS Plan

| <i>Fiscal Year</i> | <i>Employer Contribution</i> | <i>District-Funded Employee Contribution</i> | <i>Employee Contribution</i> | <i>Annual Pension Cost</i> | <i>Percentage of Annual Pension Cost Contributed</i> | <i>Net Pension Asset</i> |
|--------------------|------------------------------|--|------------------------------|----------------------------|--|--------------------------|
| 2009 | \$6,353 | \$1,661 | \$239 | \$3,353 | 189.5% | \$ 3,000 |
| 2010 | 4,797 | 1,709 | 243 | 2,982 | 160.9 | 4,815 |
| 2011 | 9,480 | 1,728 | 249 | 3,012 | 314.7 | 11,283 |
| 2012 | 4,643 | 1,025 | 916 | 4,321 | 107.5 | 11,605 |
| 2013 | 7,840 | 609 | 1,365 | 4,297 | 182.5 | 15,148 |

Source: Irvine Ranch Water District Fiscal Year 2013 Comprehensive Annual Financial Report; the District.

The following table sets forth the schedule of funding for the District’s plan as of June 30, 2012 (in thousands). The employer contribution rate for Fiscal Year 2014 is 16.795%:

TABLE 2
IRVINE RANCH WATER DISTRICT
Schedule of Funding for CalPERS Plan

| <i>Valuation Date</i> | <i>Entry Age Normal Accrued Liability</i> | <i>Actuarial Value of Assets</i> | <i>Unfunded Actuarial Accrued Liability</i> | <i>Market Value of Assets</i> | <i>Funded Ratio⁽¹⁾</i> | <i>Annual Covered Payroll</i> |
|-----------------------|---|----------------------------------|---|-------------------------------|-----------------------------------|-------------------------------|
| 06/30/08 | \$120,778 | \$100,241 | \$20,537 | \$101,091 | 83.7% | \$23,450 |
| 06/30/09 | 149,825 | 110,923 | 38,902 | 81,355 | 54.3 | 24,307 |
| 06/30/10 | 158,904 | 124,553 | 34,351 | 100,110 | 63.0 | 24,929 |
| 06/30/11 | 170,392 | 140,176 | 29,676 | 128,816 | 75.6 | 24,379 |
| 06/30/12 | 183,096 | 151,193 | 31,902 | 129,953 | 71.0 | 24,203 |

⁽¹⁾ On a market value of assets basis.

Source: CalPERS Actuarial Report Dated October 2013.

For additional information relating to the District’s plan, see Note 13 to the District’s audited financial statements for Fiscal Year 2013 attached to the Remarketing Statement as Appendix B.

CalPERS reported significant investment losses in 2009, which accounts for a portion of the increase in the District’s unfunded actuarial liability from June 30, 2008 to June 30, 2009. In addition, the increase in the District’s unfunded actuarial liability is attributable to CalPERS studies performed in fiscal year 2008-09 and the adjustment of assumptions made by CalPERS valuations for age at retirement, years of service, mortality rates, and certain other assumptions. CalPERS earnings reports for fiscal years 2009-10, 2010-11, 2011-12 and 2012-13 report an investment gain in excess of 13.0%, 21.7%, 1% and 12.5%, respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the District. The CalPERS pension trust fund pays all retiree benefit payments associated with the District’s plan.

In Fiscal Year 2013, the District established the Irvine Ranch Water District Post-Employment Benefits Trust (the “Benefits Trust”). The Benefits Trust is an irrevocable trust that was established to “pre-fund” a portion of the District’s CalPERS unfunded liability, providing the District with an alternative to

CalPERS that allows for investment by a professional fund management team selected and monitored by the District. In Fiscal Year 2013, \$35 million was deposited in the Benefits Trust. Future contributions will be transferred to CalPERS for payments to employees at the District's discretion. The District intends to reduce its future liability by the amount that is pre-funded in the Benefits Trust. As of December 31, 2013, the assets in the Benefits Trust totaled \$38,055,748.

Other Pension Benefits. The District provides pension benefits for all of its part-time and certain temporary employees through a defined contribution plan, in lieu of providing social security benefits, provided that the statutory minimum contribution of at least 7.5% is made to the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For Fiscal Year 2013, the District's payroll covered by the plan was \$449,059. The eligible employees contributed \$33,679 (the required 7.5% of current covered payroll) and the District made no contributions during such Fiscal Year.

All regular, full-time District employees are eligible to participate in the District's deferred compensation program pursuant to Section 457 of the Internal Revenue Code whereby they can voluntarily contribute a portion of their earnings into a tax-deferred fund administered by the District and invested through a third party provider. Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001, effective January 1, 2002, employees may contribute the lesser of 100% of includible compensation or the maximum dollar amount allowable under Internal Revenue Code Section 457 in effect for the year. The dollar amount currently in effect for calendar year 2014 is \$17,500. Since 2008, the limit has been indexed to inflation in \$500 increments.

Effective January 1, 2008, for employees with one year or more of service, the District provides 100% matching of employee Section 457 plan contributions up to an annual maximum of 3% of the employee's base salary. Such employer contribution amounts are deposited into a money purchase plan pursuant to Section 401(a) of the Internal Revenue Code. During Fiscal Year 2013, the District contributed \$528,011 to employee accounts under the 401(a) plan.

The assets in both plans are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District.

Other Post-Employment Benefits

The Governmental Accounting Standards Board ("GASB") issued two related pronouncements, known as GASB 43 and GASB 45, related to funding and accounting for Other Post-Employment Benefits ("OPEB") liabilities. OPEB liabilities consist of health care, insurance and all other retiree benefits that are not part of a pension plan. Under GASB 45, costs of OPEB must be matched to the current period in which employees are performing services for the District. In effect, there is an exchange between the employee and the District in which the employee renders services to the District and in exchange receives certain salaries and benefits, part of which are OPEB which they will not actually use until some point in the future. The accounting standards require the District to recognize the cost of the benefits in the periods when the employees' services are received by the District. GASB 45 also requires the District to provide information about the accrued actuarial liabilities for the promised benefits for past services, to what extent those have been funded, and to what extent there will be demands from OPEB on the District's future cash flows.

The District currently has three OPEB programs: the California Public Employees Medical and Hospital Care Act ("PEMHCA") premiums, a retiree health costs reimbursement plan, and a retiree death benefit life insurance program. Under the first program, the District pays the required healthcare coverage under PEMHCA, commonly referred to as "PERS Health." To qualify, employees must retire from the District and begin drawing CalPERS retirement benefits. Participation in PEMHCA is financed in part by the District through a contribution of \$112.00 per employee per month (at current rates). The contribution rate is scheduled to be indexed with medical inflation in future years, although contributions could increase in greater

amounts at the direction of CalPERS Board. In addition, the District pays 0.37% of the PEMHCA premium to cover administrative fees. In Fiscal Year 2013, the District contributed \$90,329 on behalf of retirees participating in the PEMHCA program.

As part of its retiree health costs reimbursement plan, the District provides retirees who have attained age 55 and have completed at least 10 years of service with the District with reimbursement of eligible healthcare costs of \$300 per month for retirees with at least ten years of service up to a maximum of \$600 per month for retirees with at least 25 years of service. In Fiscal Year 2013, the District contributed \$291,320 on behalf of retirees participating in the Retiree Health Costs Reimbursement Plan.

Finally, the retiree death benefit life insurance program provides retirees who were hired on or before December 31, 2008 with term life insurance benefits with a face amount equal to 100% of their annual salary in effect at the time of retirement. Insured group-term life benefits end for all participants at age 70. Thereafter, the District provides a self-insured \$10,000 death benefit for all participants already retired as of December 31, 2008 and for currently active Board members. To qualify, a retiree must have retired from the District, be at least 55 years old, have completed at least ten continuous years of service with the District, and must be drawing retirement benefits from CalPERS. In Fiscal Year 2013, the District contributed \$11,585 on behalf of retirees participating in this program.

OPEB costs have traditionally been accounted for and financed from the District's annual operating budget as part of its benefits expense on a pay-as-you-go basis. During Fiscal Year 2013, the District contributed \$393,234 on behalf of retirees participating in the OPEB programs. The budgeted amount for the District's OPEB in Fiscal Year 2014 is approximately \$430,000.

The District has been required to comply with the accounting and reporting requirements of GASB 45 since Fiscal Year 2008. According to an actuarial valuation prepared for the District by Demsey, Filliger & Associates, the accrued, unfunded liability for the District's OPEB as of July 1, 2012 was approximately \$6.7 million. The Annual Required Contribution ("ARC") was \$666,835 in Fiscal Year 2013, of which the District contributed \$393,234. The ARC is calculated assuming that the accrued, unfunded liability will be amortized over the next 30 years, benefits will remain constant, and funding in excess of actual benefit costs will be invested at a 4.00% annual return, and with other assumptions regarding medical cost inflation.

On June 25, 2012, GASB approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements 67 and 68 will replace Statement 27 and most of Statements 25 and 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (ii) more components of full pension costs will be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. In addition, according to GASB, Statement 68 states that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on CalPERS is not known at this time. The reporting requirements for pension plans will take effect for Fiscal Year 2014 and the reporting requirements for government employers will take effect for Fiscal Year 2015.

For additional information relating to the District's OPEB obligations, see Note 14 to the District's audited financial statements for Fiscal Year 2013 attached to the Remarketing Statement as Appendix B.

Budget Process

Prior to July 1 of each year, the General Manager prepares a budget for the Fiscal Year commencing July 1 and ending on the succeeding June 30. Following the adoption of the operating budget, the Board of Directors approves a schedule of water, sewer and recycled water rates for such Fiscal Year based on the budget approved by the Board of Directors. See the caption “CONSTITUTIONAL LIMITS AND APPROPRIATIONS AND CHARGES—Proposition 218.” The budget for Fiscal Year 2014 was approved on April 22, 2013.

Water and Sewer System Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions and natural disasters. The District utilizes a combination of self-insurance and third-party liability insurance to minimize loss exposures from property, third-party liability claims and workers compensation claims. The District self-insures the first \$25,000 per occurrence for property losses, \$100,000 per occurrence for third-party liability claims and \$125,000 per occurrence for workers compensation claims.

Property, boiler and machinery insurance is provided through a policy with Affiliated FM Insurance Company. Property insurance includes flood insurance but does not include earthquake insurance. General and excess liability coverage of \$35,000,000 and workers compensation insurance is provided through participation in the California State Association of Counties Excess Insurance Authority (CSAC-EIA). Pollution and legal liability coverage for the Irvine Desalter Project is provided by a policy with Indian Harbor Insurance Company. Settlements have not exceeded coverage for each of the past three Fiscal Years.

Collection Procedures

All charges for water and recycled water service and almost all charges for sewer service are billed monthly. If payment is not received 25 days after presentation, a one-time late charge of 10% of the unpaid balance plus 1.5% interest will be assessed for each month until the unpaid balance has been paid in full. A shut-off notice is mailed out in conjunction with an automated courtesy phone call when the unpaid balance exceeds \$150. If payment is not received within 15 days of the mailed shut-off notice, service is shut off as of the date specified on the notice. Service is not restored until all charges, including a restoration charge, have been paid in full. The District sends closed accounts to outside collection agencies and does not currently transfer such accounts to the County tax roll. A small number of accounts located in Newport Beach for which the District provides sewer service only are billed on the County tax rolls.

Outstanding Indebtedness

Improvement District Indebtedness. As of December 31, 2013, the District had \$525,900,000 aggregate principal amount of outstanding ad valorem assessment bonds (the “Ad Valorem Assessment Bonds”) on behalf of the Improvement Districts. Although the Ad Valorem Assessment Bonds are secured by ad valorem assessments on property within the respective Improvement District, and are not by their terms payable from Revenues, except for the Series 2011A-1 Bonds, the Bonds of the Irvine Ranch Water District, Series 2010B (the “Series 2010B Bonds”) and the Bonds of Irvine Ranch Water District, Refunding Series 2011A-2 (the “Series 2011A-2 Bonds”), each of which is described below under the caption “—Parity Obligations.” District practice has been to apply Net Revenues remaining after the payment of debt service on Parity Obligations and subordinate obligations to the principal and interest on the Ad Valorem Assessment Bonds. Pursuant to Section 35975 of the Act, the District also may levy certain rates and charges in lieu of ad valorem assessments to pay the Ad Valorem Assessment Bonds. The District does not currently levy in-lieu rates and charges. Any such in lieu rates and charges levied by the District in the future would not constitute Revenues. The following table illustrates a breakdown of outstanding Ad Valorem Assessment Bonds by Improvement District as of December 31, 2013.

TABLE 3
IRVINE RANCH WATER DISTRICT
Outstanding *Ad Valorem* Assessment Bonds By Improvement District

| <i>Improvement District</i> | <i>Amount Authorized</i> | <i>Amount Issued</i> | <i>Remaining Unissued Bonds Authorized</i> | <i>Amount Outstanding as of December 31, 2013</i> |
|-------------------------------|--------------------------------|------------------------------|--|---|
| Waterworks Bonds | | | | |
| 112 | \$ 28,512,300 | \$ 5,740,000 | \$ 22,772,300 | \$ 5,562,000 |
| 113⁽¹⁾ | 25,769,500 | 14,800,000 | 10,969,500 | 14,150,000 |
| 125⁽¹⁾⁽²⁾ | 735,246,000 | 413,156,400 | 322,089,600 | 195,652,000 |
| 153 | 237,300,000 | 0 | 237,300,000 | 0 |
| 154 | 4,839,000 | 0 | 4,839,000 | 0 |
| 185 ⁽³⁾ | 0 | 0 | 0 | 0 |
| 188 | 8,174,000 | 4,437,000 | 3,737,000 | 1,709,000 |
| Total Waterworks Bonds | <u>\$ 1,039,840,800</u> | <u>\$ 438,133,400</u> | <u>\$ 601,707,400</u> | <u>\$ 217,073,000</u> |
| Sewer Bonds | | | | |
| 1 ⁽⁴⁾ | \$ 2,000,000 | \$ 2,000,000 | \$ 0 | \$ 0 |
| 212 | 108,712,000 | 15,700,000 | 93,012,000 | 15,218,000 |
| 213⁽¹⁾ | 87,648,000 | 23,800,000 | 63,848,000 | 22,074,000 |
| 225⁽¹⁾⁽⁵⁾ | 856,643,000 | 449,748,000 | 406,895,000 | 244,963,000 |
| 240 | 117,273,000 | 48,476,500 | 68,796,500 | 26,292,000 |
| 252 | 0 | 0 | 0 | 0 |
| 253 | 122,283,000 | 0 | 122,283,000 | 0 |
| 256 | 0 | 0 | 0 | 0 |
| 285 ⁽⁶⁾ | 0 | 0 | 0 | 0 |
| 288 | 8,977,000 | 300,000 | 8,677,000 | 280,000 |
| Total Sewer Bonds | <u>\$ 1,303,536,000</u> | <u>\$ 540,024,500</u> | <u>\$ 763,511,500</u> | <u>\$ 308,827,000</u> |
| Total District | <u>\$ 2,343,376,800</u> | <u>\$ 978,157,900</u> | <u>\$ 1,365,218,900</u> | <u>\$ 525,900,000</u> |

⁽¹⁾ The Series 2011A-1 Bonds represent the consolidated, several general obligations of these Improvement Districts. See the Remarketing Statement under the caption "SECURITY FOR THE SERIES 2011A-1 BONDS—General—Assessment Proceeds and Pledge of Revenues."

⁽²⁾ Created on November 11, 2013. Reflects the consolidation of portions of former Improvement District Nos. 105, 106, 120, 121, 130, 135, 140, 161, 182, 184 and 186.

⁽³⁾ A special election has been called for March 4, 2014 to consider the approval of ad valorem assessment bonds for Improvement District No. 185 in the maximum authorized principal amount of \$13,500,000. The District provides no assurance that such authorization will be approved or that authorized bonds will be issued.

⁽⁴⁾ Also referred to as Improvement District No. 210.

⁽⁵⁾ Created on November 11, 2013. Reflects the consolidation of portions of former Improvement District Nos. 2(202), 206, 221, 230, 235, 250, 261, 282, 284 and 286.

⁽⁶⁾ A special election has been called for March 4, 2014 to consider the approval of ad valorem assessment bonds for Improvement District No. 285 in the maximum authorized principal amount of \$21,300,000. The District provides no assurance that such authorization will be approved or that authorized bonds will be issued.

Source: The District.

Parity Obligations. In addition to the Series 2011A-1 Bonds, the District has the following Outstanding Parity Obligations:

- **1997 State Loan #3.** In 1997, the District entered into a loan contract with the State of California (the "1997 State Loan") to fund recycled water projects. The 1997 State Loan was outstanding as of December 31, 2013 in an aggregate principal amount of \$1,164,872 and matures in 2019. Pursuant to the terms of the 1997 State Loan, the District's obligation to pay debt service on the 1997 State Loan is payable from Net Revenues on a parity with the Series 2011A-1 Bonds and other Parity Obligations.
- **Prior Reimbursement Agreements.** In connection with the District's prior issuances of *ad valorem* assessment bonds, the District has entered into several reimbursement agreements (the

“Prior Reimbursement Agreements”) with various letter of credit banks (the “Prior Banks”). Pursuant to the terms of the Prior Reimbursement Agreements, the District’s obligations to reimburse the Prior Banks will be payable from Net Revenues on a parity with the Series 2011A-1 Bonds and other Parity Obligations. There are currently no reimbursement obligations outstanding, although the District may incur reimbursement obligations under such Prior Reimbursement Agreements as provided therein. The following table summarizes the stated amount of each letter of credit associated with the Prior Reimbursement Agreements.

TABLE 4
IRVINE RANCH WATER DISTRICT
Summary of Prior Reimbursement Agreements
As of December 31, 2013

| <i>General Obligation Bonds</i> | <i>Outstanding Principal</i> | <i>Letter of Credit Bank</i> | <i>Expiration Date</i> | <i>LOC Stated Amount</i> | <i>Reimbursement Obligations Outstanding</i> |
|-------------------------------------|----------------------------------|--|----------------------------|------------------------------|--|
| | | Bank of New York Mellon (“BNY Mellon”) | | | |
| Series 1989 | \$ 2,600,000 | | 06/02/14 | \$ 2,635,047 | 0 |
| Series 1991 | 4,100,000 | BNY Mellon | 08/02/14 | 4,155,266 | 0 |
| Series 1993 | 37,500,000 | BNY Mellon | 06/02/14 | 38,012,500 | 0 |
| | | Sumitomo Mitsui Banking Corp. | | | |
| Series 1995 | 18,100,000 | | 07/14/17 | 18,367,781 | 0 |
| | | Sumitomo Mitsui Banking Corp. | | | |
| Series 2008A | 55,200,000 | | 07/14/17 | 56,016,658 | 0 |
| | | U.S. Bank National Association | | | |
| Series 2009A | 70,000,000 | | 07/15/16 | 70,782,466 | 0 |
| Series 2009B | <u>70,000,000</u> | Bank of America, N.A. | 07/15/16 | <u>70,782,466</u> | <u>0</u> |
| TOTAL | <u>\$ 257,500,000</u> | | | <u>\$ 260,752,184</u> | <u>\$ 0</u> |

Source: The District.

- 2010 Installment Sale Agreement. In 2010, the District entered into an Installment Sale Agreement (the “2010 Installment Sale Agreement”) in connection with the execution and delivery of the District’s \$85,145,000 aggregate principal amount of Certificates of Participation Irvine Ranch Water District Refunding Series 2010. The 2010 Installment Sale Agreement was outstanding as of December 31, 2013 in the aggregate principal amount of \$72,490,000 and matures in 2032. The District’s obligation to make installment payments pursuant to the 2010 Installment Sale Agreement is on a parity with the Series 2011A-1 Bonds and other Parity Obligations.
- Series 2010B Bonds. In 2010, the District issued \$175,000,000 aggregate principal amount of Series 2010B Bonds. The Series 2010B Bonds were outstanding as of December 31, 2013 in the aggregate principal amount of \$175,000,000 and mature in 2040. In addition to Assessment Proceeds, the Series 2010B Bonds are payable from Net Revenues on a parity with the Series 2011A-1 Bonds and other Parity Obligations. See the caption “WATER AND SEWER SYSTEM FINANCIAL INFORMATION—Effect of Federal Sequester” for a discussion of the effect of the federal sequester on the receipt of interest subsidy payments relating to the Series 2010B Bonds.
- Series 2011A-2 Bonds. In 2011, the District issued \$40,370,000 aggregate principal amount of Series 2011A-2 Bonds. The Series 2011A-2 Bonds were outstanding as of December 31, 2013 in the aggregate principal amount of \$37,360,000 and mature in 2037. In addition to Assessment Proceeds, the Series 2011A-2 Bonds are payable from Net Revenues on a parity with the Series 2011A-1 Bonds and other Parity Obligations.

Subordinate Debt.

- **Interest Rate Swap Transactions.** As of December 31, 2013, the District was also obligated under five interest rate swap transactions with a total notional amount of \$130 million and termination dates ranging from June 2019 to March 2029, pursuant to which the District is entitled to receive variable rate payments based on a floating rate index in return for the District's obligation to make payments at a fixed interest rate (the "Swaps").

The Swaps generally are evenly distributed, as to notional amount on a particular transaction date, between two swap counterparties – Merrill Lynch Capital Services, Inc. ("Merrill") and Citibank, N.A. ("Citibank") – except with respect to one Swap with a notional amount of \$30 million and a termination date of June 17, 2019, which was entered into only with Citibank. For additional information with respect to the payment terms and other information relating to the Swaps, see Note 3 to the District's financial statements attached as Appendix B to the Remarketing Statement. Regularly-scheduled and early termination payments with respect to the Swaps constitute unsecured general obligations of the District payable from legally-available funds. The Swaps are payable from certain Revenues, but are subordinate to the District's obligation to pay debt service on the Series 2011A-1 Bonds and other Parity Obligations. Any amounts received by the District pursuant to the Swaps also constitute Revenues and, as such, are pledged for the payment of the Series 2011A-1 Bonds and other Parity Obligations. As of December 31, 2013, the mark-to-market value of the total interest rate swaps with Citibank and Merrill exceeded the threshold amount (\$15,000,000) for each counterparty, requiring the District to post collateral in the amount of \$8,454,163. The funds are held in a separate trust account and earn interest at the Federal Funds Effective Rate.

All of the above-described interest rate swap transactions entail risk to the District. For example, the swap counterparties may fail or be unable to perform, interest rates may vary from assumptions, the District may be required to post collateral in certain circumstances, or the District may be required to make significant payments in the event of an early termination of one or more Swaps. The early termination of a Swap may not affect the obligations of the counterparties with respect to the other Swaps. The District cannot predict if any such event will occur with respect to one or more of the District's existing or future interest rate swap agreements. However, the District does not anticipate that any such event would have a material adverse effect on the District's ability to pay the debt service on the Series 2011A-1 Bonds.

- **Santiago County Water District Consolidation.** The District and Santiago County Water District ("SCWD") consolidated effective July 1, 2006. As successor to SCWD, the District is obligated to satisfy the following additional obligations: (i) a fiscal services agreement with the State of California Department of Water Resources, with a loan balance of approximately \$850,563 (as of December 31, 2013 and final payment due in 2025; and (ii) a promissory note payable to Foothill/Eastern Transportation Corridor Agency for \$565,000, with no stated maturity or final payment date.

Joint Powers Authority Transactions. As of December 31, 2013, the Irvine Ranch Water District Joint Powers Agency had outstanding approximately \$595,965,000 of taxable refunding bonds (the "JPA Bonds") maturing in 2014, which are secured by a trust estate consisting of investment securities and investment earnings thereon (the "JPA Investments"). See Note 9 in the District's audited financial statements attached as Appendix B to the Remarketing Statement. The JPA Bonds are not payable from Revenues and are not recourse obligations of the District. The proceeds from the JPA Bonds are invested in authorized investments sufficient to pay the principal and interest thereon to the maturity of the JPA Bonds in 2014. Although a portion of the JPA Bonds was refunded in 2012, the investment contract pursuant to which JPA Bond proceeds are invested was not altered. By agreement between the Irvine Ranch Water District Joint

Powers Agency and the District, the earnings from such investments were transferred to the District after application of such earnings first toward payment of principal and interest on the JPA Bonds.

Variable Rate Debt Management

The Board of Directors of the District has adopted a policy to maintain a target amount of investment assets equal to 75% or more of the District’s outstanding unhedged variable rate indebtedness. No assurance can be made that the Board of Directors of the District will not modify such policy in the future.

Current Investments

As of December 31, 2013, the District had investments of approximately \$313.8 million (excluding the JPA Investments described above under the caption “—Outstanding Indebtedness—Joint Powers Authority Transactions”) and real property investments as follows:

TABLE 5
IRVINE RANCH WATER DISTRICT
Summary of Investments

| <i>Investment Type</i> | <i>Approximate Investment Amount in Millions⁽¹⁾</i> | <i>Percentage of Total Investments⁽¹⁾</i> |
|---|--|--|
| State of California Local Agency Investment Fund | \$ 122.9 | 39.30% |
| Federally Backed Securities | 182.4 | 58.15 |
| Cash and Other ⁽²⁾ | <u>8.5</u> | <u>2.55</u> |
| Total | \$ 313.8 | 100.00% |

⁽¹⁾ As of December 31, 2013. Rounded.

⁽²⁾ Includes collateral held with Citibank and Merrill pursuant to the Swaps. Although not held by the District, such collateral constitutes District moneys. See the caption “—Outstanding Indebtedness—Subordinate Debt—Interest Rate Swap Transactions.”

Source: The District.

In addition to the moneys invested in local agency municipal bonds and LAIF, the District has invested approximately \$72.6 million of its capital facilities replacement fund in real property. The District’s real property investments include a limited partnership interest in a 230-unit apartment complex (the “Wood Canyon Villas Apartments”), ownership of a 450-unit apartment complex (the “Sycamore Canyon Apartments”) and ownership of three commercial office buildings (the “Irvine Market Place,” the “Waterworks Business Park” and the “Sand Canyon Professional Center”), with market values well in excess of the original investment. Wood Canyon Villas Apartments, Sycamore Canyon Apartments, the Irvine Market Place, the Waterworks Business Park and the Sand Canyon Professional Center are all income-producing properties, the earnings and projected earnings from which are reflected in Tables 6 and 7 below.

In February 2014, the District and El Toro Water District (“ETWD”) entered into an Installment Sale Agreement (the “ISA”) pursuant to which the District agreed to fund ETWD’s share of the costs of construction of, and the acquisition of capacity rights in, the Baker Water Treatment Plant project (the “Baker WTP”) in exchange for quarterly installment payments from ETWD. See the caption “THE WATER SYSTEM—General” for a description of the Baker WTP. ETWD’s obligation to repay the District under the ISA is payable from net revenues of ETWD’s water system over a period of twenty years. The principal amount of ETWD’s obligations under the ISA will not exceed \$12,500,000 and the applicable interest rate will be the Bloomberg Municipal Utility “A” rated municipal bond market index rate at the time of the first disbursement of funds by the District (currently anticipated to be March 2015).

Historic Net Real Estate Income

The following table shows the net real estate income after expenses of the District for the five most recent Fiscal Years.

TABLE 6
IRVINE RANCH WATER DISTRICT
Historic Net Real Estate Income
(in Thousands)

| <i>Fiscal Year</i> | <i>Net Income</i> |
|--------------------|----------------------|
| 2009 | \$7,010 |
| 2010 | 5,624 ⁽¹⁾ |
| 2011 | 5,649 |
| 2012 | 6,736 |
| 2013 | 6,566 |

⁽¹⁾ Net income decrease due to vacancies in commercial real estate holdings.
Source: The District.

Projected Net Real Estate Income

The following table projects the net real estate income after expenses of the District for the current and next four Fiscal Years.

TABLE 7
IRVINE RANCH WATER DISTRICT
Projected Net Real Estate Income
(in Thousands)

| <i>Fiscal Year</i> | <i>Net Income</i> ⁽¹⁾ |
|--------------------|----------------------------------|
| 2014 | \$7,401 |
| 2015 | 7,494 |
| 2016 | 7,564 |
| 2017 | 7,645 |
| 2018 | 7,727 |

⁽¹⁾ Based on existing and expected leases. Increase from Fiscal Year 2013 represents a 3% increase in net operating income for Sycamore Canyon Apartments, a full year of income from two tenants at the Sand Canyon Professional Center and increased income as a result of 98% occupancy rate for all three commercial buildings. See the caption “—Current Investments.”

Source: The District.

1% Property Tax Revenues

Pursuant to the Act, the Board of Supervisors of the County is required to levy a “general assessment” on assessable property within the boundaries of the District sufficient to raise the amounts determined each year by the District’s Board of Directors to be necessary for the authorized purposes of the District. These provisions, however, have largely been superseded by the passage by the California electorate in June of 1978 of Article XIII A of the California Constitution (commonly known as “Proposition 13”), and by the legislation subsequently enacted by the California Legislature to implement Article XIII A. As a result of Article XIII A and its implementing legislation, the District receives as proceeds of the “general assessment” a share of the

one percent *ad valorem* property tax collected by the County from assessable property within the boundaries of the District (the “1% Property Tax Revenues”).

From time to time legislation has been considered as part of the State budget to shift 1% Property Tax Revenues collected by each county from local agencies, including special districts such as the District, to school districts or other governmental entities. However, Proposition 1A (“Proposition 1A”), proposed by the California Legislature in connection with the 2004-05 State Budget Act and approved by the voters in November 2004, restricted State authority to reduce major local tax revenues such as the tax shifts permitted to take place in legislation enacted in connection with the 2004-05 and 2005-06 State budgets, which shifted approximately 35% of many special districts’ shares of the countywide one percent *ad valorem* tax.

Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of 1% Property Tax Revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that, beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

The Amended 2009-10 Budget Act provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A. Pursuant to this act, the State borrowed approximately \$2.1 million of the District’s 1% Property Tax Revenues for Fiscal Year 2010. As noted above, under Proposition 1A, the State was required to repay the property taxes with a 2% rate of interest within three years. The District received repayment of the shifted amount, plus interest, in August 2012.

There can be no assurance that the 1% Property Tax Revenues that the District currently expects to receive will not be temporarily shifted from the District pursuant to Proposition 1A in future fiscal years or reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of 1% Property Tax Revenues by the District. See the Remarketing Statement under the caption “SECURITY FOR THE SERIES 2011A-1 BONDS—Pledge of Assessment Proceeds and Revenues” for a discussion of the extent to which 1% Property Tax Revenues are available to pay Debt Service on the Series 2011A-1 Bonds.

The table below sets forth the amount of 1% Property Tax Revenues received by the District for the five most recent Fiscal Years.

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TABLE 8
IRVINE RANCH WATER DISTRICT
1% Property Tax Revenues
(in Thousands)

| <i>Fiscal Year</i> | <i>1% Property Tax Revenues</i> |
|---------------------|---------------------------------|
| 2009 | \$26,283 |
| 2010 ⁽¹⁾ | 27,150 |
| 2011 | 26,989 |
| 2012 | 29,150 |
| 2013 ⁽¹⁾ | 29,265 |

⁽¹⁾ Reflects shift of property tax revenues of approximately \$2.1 million to Educational Revenue Augmentation Fund as described above. Such moneys were received, with interest, in Fiscal Year 2013.
Source: The District.

Alternative Method of Tax Apportionment – “Teeter Plan”

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property assessments on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the assessment-levying or assessment-collecting agency.

The Teeter Plan for the County is applicable to all assessment levies for which the County acts as the assessment-levying or assessment-collecting agency, or for which the treasury of the County is the legal depository of assessment collections.

The *ad valorem* property assessments to be levied to pay the interest on and principal of the Series 2011A-1 Bonds will be subject to the Teeter Plan. The District will receive 100% of the *ad valorem* property assessment levied on secured property to pay the Series 2011A-1 Bonds irrespective of actual delinquencies in the collection of the assessment by the County so long as the Teeter Plan remains in effect. The District’s share of 1% Property Tax Revenues is also subject to the Teeter Plan.

The Teeter Plan is to remain in effect for the County unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event that the Board of Supervisors of the County discontinues the Teeter Plan for the County, only those secured property assessments that are actually collected would be allocated to political subdivisions (including the District) for which the County acts as the assessment-levying or assessment-collecting agency.

Governmental Regulations

The District’s operations are subject to numerous environmental regulations enforced by multiple governmental entities. Programs are in place for compliance with drinking water regulations, water discharge regulations, underground and aboveground fuel storage tank regulations, hazardous materials management plans, hazardous waste regulations, air quality permitting requirements, wastewater discharge limitations, and employee safety issues relating to hazardous materials and other conditions. Also, the District aggressively pursues the investigation and, when appropriate, the implementation of alternative methods and technologies for meeting increasingly strict environmental regulations.

The District expects environmental regulation to increase, resulting in higher capital and operating costs in the future, which may have a material adverse effect on the finances of the District.

Although the District's Board of Directors establishes the schedules of water, sewer and reclaimed water rates for each Fiscal Year, such rates are subject to the requirements of Proposition 218, which are described further under the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

WATER SUPPLY

The District was formed in 1961, with the purpose of obtaining a water supply for municipal and irrigation purposes. For the twelve month period ended June 30, 2013, of the water supplied by the District, approximately 21% was imported water, approximately 54% was groundwater and native stream flows and approximately 25% was recycled water.

The District operates a number of wells and reservoirs that produce or store local water for both potable and non-potable uses. Surface storage includes Irvine Lake, a 25,000 acre feet reservoir that is jointly owned by the District and Serrano Water District. Irvine Lake receives stream flow (native water) coming from the Santiago Creek watershed. This water is used by the District primarily for agricultural and other irrigation purposes, and supplements the recycled water system during peak demand periods. In addition, the District has approximately 4,800 acre feet of recycled water storage capacity in its Sand Canyon, Rattlesnake, San Joaquin and Syphon Reservoirs and is currently evaluating additional recycled water storage projects.

Imported Water

In Fiscal Year 2013, the District purchased 20,151 acre feet of water imported from the Colorado River and northern California by The Metropolitan Water District of Southern California ("MWD"). MWD supplies water through its member agencies, including the member agency in which the District is situated, Municipal Water District of Orange County ("MWDOC"). The current cost of treated imported water from MWDOC is \$850.25 per acre foot. In addition, the District currently pays a fixed charge to MWDOC in the form of readiness to serve, capacity reservation and service connection charges. The readiness to serve and capacity reservation charges are paid monthly and currently total \$111,309, while the service connection charge is paid annually and is currently \$800,050.

MWD faces various challenges in the continued supply of imported water to MWDOC. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. MWD has also entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Such official statements, other disclosure documents, annual reports and notices (collectively, the "MWD Information") are filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>. The MWD Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. **MWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE SERIES 2011A-1 BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS.**

MWD HAS NOT REVIEWED THIS REMARKETING STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN,

INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS UNDER RULE 15c2-12.

Groundwater

General. The District's Water Resources Master Plan calls for a reliable water supply mix and includes developing sufficient groundwater production capacity to pump up to the District's basin production percentage (the "BPP") set by the Orange County Water District ("OCWD"), the agency responsible for managing the Orange County groundwater basin. District groundwater pumping is affected by policies of OCWD, including the setting of replenishment assessments, basin production percentages of total water demand by agencies pumping basin groundwater and basin equity assessments.

OCWD establishes and collects replenishment assessments as a means of purchasing water and funding projects for the purpose of replenishing the Orange County groundwater basin. The replenishment assessment is established annually by OCWD and applies to every acre foot of groundwater produced from the basin.

In addition, each year, OCWD sets the BPP for water to be extracted from the Orange County groundwater basin. The BPP is the amount of groundwater, as a percentage of the total water demands, that can be pumped from the Orange County groundwater basin during the year by a groundwater pumping agency without incurring the additional assessment described in the following paragraph. The amount of groundwater that an agency can pump without incurring the additional assessment is calculated by multiplying the total water use of such agency by the BPP (the "BPP formula").

The additional assessment incurred by an agency that pumps groundwater above the limit established by the BPP formula is called the basin equity assessment (the "BEA"). The BEA is established annually by OCWD and is intended to discourage pumping of amounts above the BPP formula by raising the cost of producing groundwater so that it equals the cost of importing water, thereby encouraging groundwater pumping agencies to supplement their groundwater production with imported water for the portion of their water use that exceeds the BPP. The BEA is a surcharge to discourage, yet still allow for, the production of groundwater in excess of the BPP formula. One of the District's operating objectives is to produce the maximum amount of groundwater within the BPP formula and to avoid producing groundwater in excess of such maximum in order to avoid paying the BEA. In Fiscal Year 2013, the amount of groundwater that the District pumped from the Orange County groundwater basin was below its BPP or exempt from the BPP (as described below) and, accordingly, the District did not pay a BEA to OCWD.

Because of average or above average precipitation in the Santa Ana River Watershed and a lower than average drawdown of the Orange County groundwater basin in recent years, OCWD has gradually increased the BPP. As a result of higher local precipitation in Fiscal Year 2011, which resulted in a substantial recharge of the Orange County groundwater basin, the BPP for Fiscal Year 2012 was raised slightly. For Fiscal Years 2010, 2011 and 2012 the BPP was 62%, 62% and 65%, respectively. As a result of continued recharge of the Orange County groundwater basin, the BPP for Fiscal Year 2013 was raised to 68%, which allowed the District to pump approximately 45,000 acre feet from the Orange County groundwater basin without incurring any BEA. The BPP for Fiscal Year 2014 is 70%. The District pays OCWD a replenishment assessment of \$266 per acre foot for all groundwater pumped and a BEA equal to an additional \$524 per acre foot for groundwater pumped in excess of the BPP formula.

For certain portions of the District's groundwater production, the application of OCWD's BPP and BEA varies from the above general description. The District's Dyer Road Well Field has a production amount established by contract with OCWD as described in the below paragraph. The District also has several projects through which groundwater is produced that are, by contract with OCWD, completely or partially

exempt from the BEA. While this “BEA-exempt” groundwater typically requires treatment, the District’s cost to produce and treat this groundwater is effectively capped at the cost for imported water. Additionally, as portions of the District currently lie outside of OCWD’s jurisdictional boundary, water demands in those areas are not included by OCWD in the accounting of the basin production percentage for the District. Approximately 32% of the District’s water demand is from outside the OCWD jurisdictional boundary.

The BPP formula for the District’s Dyer Road Well Field is not adjusted annually by OCWD but is fixed by contract with OCWD at 28,000 acre feet per year of clear groundwater, subject to the requirement that the amount over 20,000 acre feet is matched by an equal amount of groundwater pumped from the District’s Deep Aquifer Treatment System, which treats water from a deep aquifer requiring treatment for removal of organic color. Like OCWD’s general BPP, the Dyer Road Well Field’s contractually fixed BPP formula discourages, but does not prohibit, production over such amount through the application of the BEA to any excess amount.

The District also produces groundwater from its Irvine Desalter Project, which is described in greater detail under the caption “—Irvine Desalter Project.” The Irvine Desalter Project removes salts and nitrates, for a combined total potable and non-potable production of an additional 7,300 acre feet per year that is exempt from the BPP. A combined additional 2,100 acre feet per year of production is available from three other wells, the Orange Park Acres well, Well 2 in Lake Forest and Well 115 in Irvine. Water from Well 115 is pumped and treated at the Irvine Desalter Project. However, such water is not accounted for as Irvine Desalter Project water because it was not part of the original Irvine Desalter Project. The Orange Park Acres well was taken out of service in Fiscal Year 2011 and is expected to return to service in or about January 2015. Well 115 was taken out of service in Fiscal Year 2011 and is expected to return to service in or about August 2014. Production from the Orange Park Acres well and Well 115 is subject to the BPP and the BEA, while production from Well 2 is exempt from the BPP and the BEA.

In addition, in April 2013, the District completed construction of the Wells 21 and 22 project, which is expected to add an additional 6,300 acre feet per year of groundwater. Between April and June 2013, the Wells 21 and 22 project produced approximately 1,995 acre feet of groundwater. These wells are exempt from the BPP and the BEA. The District is looking to expand its groundwater production facilities further, and is currently evaluating potential well sites. The District also has rights to native water impounded in Irvine Lake and at the Harding Canyon Dam in the Santiago Canyon area. Such native water does not produce firm annual yields.

Irvine Desalter Project. The Irvine Desalter Project is a groundwater development project that was constructed by the District in cooperation with OCWD, United States Departments of the Navy and Justice, MWD and MWDOC. The Irvine Desalter Project commenced operations in early 2007.

The Irvine Desalter Project consists of two components that provide water supplies. The first component, a potable water wellfield, pipelines and purification plant, treats local groundwater to remove salts and nitrates caused by the natural geology and past agricultural use. The water is treated to drinking water standards through reverse osmosis and disinfection. This component of the project has a design flow rate of approximately 5,100 acre feet of drinking water per year. In Fiscal Year 2013, this component of the Irvine Desalter Project produced 3,384 acre feet, which was more than Fiscal Year 2012 production of 2,868 acre feet as a result of Well 107 being replaced and returned to service in October 2012. The District is expanding the utilization of the Irvine Desalter Project treatment plant by adding an additional well, Well 115, which is expected to return to service in August 2014, and the District is proposing to expand this program to provide approximately 5,500 acre feet per year.

The second component of the Irvine Desalter Project is treating a plume of contaminated groundwater from the main aquifer of the Irvine sub-basin of the Orange County groundwater basin. The plume has arisen from the now-closed El Toro Marine Corps Air Station (“MCAS”). This second component consists of a separate treatment system that removes volatile organic compounds in the groundwater from solvent

degreasers previously used on the military base. The contaminants are removed from the groundwater using an air stripper and granular activated carbon absorption units. The treated water is used in the District's recycled water system and is designed to supply a minimum of 3,400 acre feet of recycled water per year. In Fiscal Year 2013 this component of the Irvine Desalter Project produced 3,739 acre feet from non-potable wells. The United States Department of the Navy is compensating the District for this component of the project as part of the Settlement Agreement for Groundwater Remediation of the MCAS. The District expects that this compensation will cover the project costs until the plume of contaminated groundwater is cleaned up.

In addition to the two components described above, the Department of the Navy operates a number of wells on the former MCAS property. These wells pump contaminated groundwater from shallow basins located below the former base. Such water is treated by a treatment plant owned and operated by the District using an air stripper and granular activated carbon absorption units. These wells and the treatment plant, which are referred to as the Shallow Groundwater Unit (the "SGU"), are designed to treat approximately 640 acre feet per year of contaminated groundwater. The treated SGU water is disposed of via an existing ocean outfall. In Fiscal Year 2013, the SGU treated approximately 635 acre feet of water.

Historic Groundwater Supply. Set forth below is a summary of the District's sources of groundwater supply in acre feet per year for the last five Fiscal Years.

TABLE 9
IRVINE RANCH WATER DISTRICT
Historic Groundwater Supply In Acre Feet Per Year

| <i>Fiscal Year</i> | <i>Dyer Road Well Field</i> | <i>Deep Aquifer Treatment System</i> | <i>Irvine Desalter Project</i> ⁽²⁾ | <i>Irvine Sub-basin</i> | <i>Other</i> ⁽⁶⁾ | <i>Total</i> |
|--------------------|-----------------------------|--------------------------------------|---|-------------------------|-----------------------------|--------------|
| 2009 | 28,614 | 8,782 | 5,365 | 1,667 | 154 | 44,582 |
| 2010 | 27,744 | 8,696 | 7,009 | 1,064 | 715 | 45,228 |
| 2011 | 22,488 ⁽¹⁾ | 8,756 | 5,837 ⁽³⁾ | 611 ⁽⁴⁾ | 352 | 38,044 |
| 2012 | 19,917 ⁽¹⁾ | 8,916 | 5,796 ⁽³⁾ | 627 ⁽⁴⁾ | 0 | 35,256 |
| 2013 | 27,763 | 8,858 | 7,123 | 2,866 ⁽⁵⁾ | 281 | 46,891 |

⁽¹⁾ Excludes 5,512 acre feet of water and 8,083 acre feet of water purchased at OCWD's request in Fiscal Years 2011 and 2012, respectively, in lieu of pumping groundwater. In-lieu water was not purchased in Fiscal Years 2007 through 2010.

⁽²⁾ Excludes water pumped from the SGU, but includes non-potable water used in the District's recycled water system.

⁽³⁾ Decrease from Fiscal Year 2010 amount reflects the fact that Well 107 was taken out of service in Fiscal Year 2011. Well 107 was returned to service in October 2012. See the caption "—Irvine Desalter Project."

⁽⁴⁾ Decrease from Fiscal Year 2010 amount reflects the fact that Well 115 was taken out of service in Fiscal Year 2011. Well 115 is expected to return to service in or about August 2014. See the caption "—General."

⁽⁵⁾ Increase from Fiscal Year 2012 amount reflects completion of Wells 21 and 22. See the caption "—General."

⁽⁶⁾ Includes the Orange Park Acres well, which was taken out of service in 2011. The Orange Park Acres well is expected to return to service in or about January 2015. Also includes Well 2 in Lake Forest. See the caption "—General."

Source: The District.

OCWD. OCWD faces various challenges in managing its groundwater basin. A description of these challenges as well as a variety of other operating information with respect to OCWD is included in certain disclosure documents prepared by OCWD. OCWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. OCWD has also entered into certain continuing disclosure agreements pursuant to which OCWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12. Such official statements, other disclosure documents, annual reports and notices (collectively, the "OCWD Information") are filed with EMMA at <http://emma.msrb.org>. The OCWD Information is not incorporated herein by reference thereto, and the

District makes no representation as to the accuracy or completeness of such information. OCWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE SERIES 2011A-1 BONDS TO PROVIDE OCWD INFORMATION TO THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS.

OCWD HAS NOT REVIEWED THIS REMARKETING STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO OCWD. OCWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS UNDER RULE 15c2-12.

Water Banking

In addition to developing its local groundwater and recycled water systems, the District is diversifying its water supply portfolio by developing water banking projects in Kern County, California. These projects are known as the Strand Ranch Integrated Banking Project and the Stockdale Integrated Banking Project (collectively, the “Water Bank”). The District’s Strand Ranch and Stockdale West Ranch properties are situated on groundwater recharge lands that overlie the regional Kern County groundwater basin. The purpose of developing the Water Bank is to improve the District’s water supply reliability by capturing lower cost water available during wet hydrologic periods for use during dry periods. The Water Bank will enhance the District’s ability to respond to drought conditions and potential water supply interruptions and will enable the District to reduce the cost of water delivered under such conditions.

In 2009, the District entered into a 30-year water banking partnership with the Rosedale-Rio Bravo Water Storage District (“Rosedale”) in Kern County. This agreement provides for Rosedale to operate the Strand Ranch portion of the Water Bank on behalf of the District and permits the District: (i) to store up to 50,000 acre feet of water in the aquifer; (ii) to recharge up to 17,500 acre feet of water in the aquifer; and (iii) to recover up to 17,500 acre feet of water per year from the aquifer. The District has priority rights to use the recharge ponds when Rosedale is not recharging Kern River floodwaters. All other uses of the recharge ponds by Rosedale are on a second priority basis to the District’s use. The water that Rosedale stores on its own behalf does not count against the District’s 50,000 acre feet storage rights.

The Strand Ranch property has a major canal running through it that allows the movement of water onto and off of the property. The District has completed construction of 502 acres of groundwater recharge ponds and the facilities necessary to divert water from the canal and into ponds on the property. The recharge ponds allow available surface water to be infiltrated into the groundwater basin for later use. Seven groundwater wells that will provide the ability to recover water have already been constructed. Associated wellheads and pipelines have also been completed and the recovery facilities are available to recover banked water as necessary during drought conditions and potential water supply interruptions. The Water Bank is now fully operational.

Currently, the District is expanding the Water Bank onto the Stockdale West Ranch, which is adjacent to the Strand Ranch. The Stockdale West Ranch was purchased by the District in late 2010. These additional lands will allow the District to increase the District’s water banking recharge, storage and recovery capabilities by approximately 50%. The expansion of the Water Bank to the Stockdale West Ranch property will further increase the District’s dry year water supply reliability.

In 2011, the District implemented a pilot project on the Stockdale West Ranch and constructed 238 acres of recharge basins on the property. In addition, the District constructed water conveyance facilities to deliver water to the property.

In 2012, the District executed a development agreement with Rosedale that provides for sharing the costs of preparation of an environmental impact report for a joint banking project involving the District's Stockdale West Ranch and Rosedale's Stockdale East Ranch, both of which are adjacent to the Strand Ranch. This development agreement also outlines the terms and conditions of a long-term agreement for the operation of the joint project facilities which will comprise the Stockdale Integrated Banking Project. The development agreement commits the District and Rosedale to the preparation of a long-term agreement that can be executed concurrent with the certification of the environmental impact report. A draft of the environmental impact report is expected to be released for public review in February 2014, and the District expects that a final environmental impact report and long-term agreement will be available for certification and execution in May 2014.

The District has secured water from a number of sources for recharge at the Water Bank. Pursuant to the District's agreement with Rosedale, Rosedale will divert a portion of its entitlement to floodwater flows on the Kern River to District-owned storage ponds for recovery in dry years. The District is entitled, at no cost, to 20% of all Kern River floodwaters recharged by the Water Bank recharge ponds.

The District has also secured access to State Water Project water that will be stored in the Water Bank beginning in early 2014. Such water is available as a result of the District's acquisition of approximately 883 acres (the "Jackson Ranch") located within the Dudley Ridge Water District ("Dudley Ridge"), together with rights to use approximately 1,738 acre feet of Table A State Water Project water allocated to Dudley Ridge. The District expects to store up to 8,700 acre feet of such water in the Water Bank between 2014 and 2017. The District's ability to extract such water at any given time is dependent on annual State Water Project allocation decisions made by the State. Additionally, the Jackson Ranch land acquisition included certain participation rights in the Kern Water Bank to store approximately 9,495 acre feet of water.

In 2011, the District entered into a 28-year exchange program (the "Exchange Program") with Buena Vista Water Storage District ("BVWSD") that allows BVWSD to store a portion of its high-flow Kern River water at the Strand Ranch Integrated Banking Project in exchange for allocating to the District 50% of such stored water. BVWSD holds both State Water Project Table A water rights and pre-1914 rights to Kern River water. The pre-1914 water rights give BVWSD an average annual entitlement of 158,000 acre feet of Kern River water. Pursuant to the Exchange Program, BVWSD is entitled to deliver up to 17,500 acre feet of water to the Water Bank in any given year with a maximum cumulative capacity of 40,000 acre feet. The District and BVWSD are working together to expand the scope of the Exchange Program to provide for additional deliveries to the Stockdale West Ranch. The District is entitled to keep one half of any water banked by BVWSD in the Water Bank.

According to the schedule set forth in the Exchange Program, the District is entitled to keep an additional 10% of the water stored by BVWSD each calendar year after the fourth calendar year following the year of the recharge event, which amount increases by 10% each calendar year until nine calendar years after the year of the recharge event, at which time the District is entitled to keep all water transferred by BVWSD to the Water Bank. Pursuant to the terms of the Exchange Program, the District and BVWSD share equally in any water losses resulting from the exchange. BVWSD is responsible for all costs of delivering water to the Water Bank and the District is responsible for all costs of returning the water to BVWSD. The District is required to return water that BVWSD determines it will recover from the Water Bank at a maximum rate of 6,667 acre feet per year. The District is obligated to pay BVWSD for any water kept by the District in excess of 50% of the water transferred by BVWSD to the Water Bank at BVWSD's then current State Water Project Table A Variable Operations, Maintenance, Power and Replacement unit cost rate for water. The 28-year term of the Exchange Program coincides with the District's agreement with Rosedale relating to the Water Bank.

In 2012, the District entered into separate Pilot Exchange Agreements with the Central Coast Water Authority and the Antelope Valley-East Kern Water Agency (the "Pilot Exchange Agreements") that provided for such agencies to store portions of their 2012 allocation of State Water Project water at the Water Bank in

exchange for the District's receipt of half of such water for its own use. At the end of calendar year 2013, a total of 6,400 acre feet of water was stored at the Water Bank through the Pilot Exchange Agreements.

The District has entered into a Coordinated Operating, Water Storage, Exchange and Delivery Agreement with MWD which allows the District to have State Water Project water that is recovered from the Water Bank delivered to the District's service area. Through this agreement, the District can cause the delivery of State Water Project water from the Water Bank to the District's service area at any time. The District is in the process of developing an additional agreement with MWD to have other waters recovered and delivered into the District's service area. Such additional agreement is expected to be used on an on-call basis when the District desires to move non-State Water Project water into southern California for use in the District's service area.

Since 2010, the District has delivered a total of approximately 36,000 acre feet of water to the Water Bank, including the Stockdale West Ranch. The District returned 2,500 acre feet of water to BVWSD in 2012 from BVWSD's share of the water stored in the Water Bank pursuant to the Exchange Program. In 2013, the District returned 281 acre feet of water to the Central Coast Water Authority and 6,667 acre feet of water to BVWSD in accordance with the Pilot Exchange Agreements.

The cost of the Strand Ranch water banking facilities (including the land acquisition costs) was approximately \$21,820,000. Such facilities are now fully operational. The cost of expansion of the water banking facilities onto the Stockdale West Ranch (including the costs of acquisition of these lands) is expected to be approximately \$13,000,000, of which the District has spent approximately \$7,478,000 as of December 2013.

The District is currently pursuing additional opportunities for water banking and contractual rights to other surface waters for diversion into the Water Bank for later use by the District. These other sources include long-term programs for State Water Project water from MWD, the Central Coast Water Authority and the Antelope Valley-East Kern Water Agency.

A summary of water held in storage pursuant to the District's water banking program as of December 1, 2013 (after water losses) is set forth below.

TABLE 10
IRVINE RANCH WATER DISTRICT
Summary of Water Banking Programs
As of December 31, 2013 (Acre Feet)

| <i>Facility</i> | <i>Total Capacity</i> | <i>Total Water in Storage</i> | <i>District Share of Total Water in Storage⁽¹⁾</i> |
|---------------------------------|-----------------------|-------------------------------|---|
| Strand Ranch Integrated Banking | 50,000 | 22,019 | 16,843 |
| Stockdale West Ranch | 26,000 ⁽²⁾ | 2,876 | 1,401 |
| Kern Water Bank | <u>9,495</u> | <u>4,039</u> | <u>4,039</u> |
| Total | 85,495 | 28,934 | 22,283 |

⁽¹⁾ The District's ability to extract water is subject to certain contractual and operational constraints as described above and is currently limited to approximately 17,500 acre feet. Upon certification of the environmental impact report for the Stockdale West Ranch, which is expected to occur in May 2014, the District expects to be able to expand its groundwater extraction capacity by drilling new wells on the Stockdale West Ranch.

⁽²⁾ Estimate. Final storage capacity to be determined subject to further California Environmental Quality Act proceedings and execution of long-term agreement expected to be entered into with Rosedale.

Source: The District.

Recycled Water

During Fiscal Year 2013, the District produced 22,983 acre feet of recycled water and supplied an additional 6,869 acre feet of non-potable water to District customers via the recycled water system. The District processes and treats secondary effluent from its customers to produce recycled water for sale to customers for non-potable utilization. Recycled water is currently sold to approximately 5,000 customers within the District. As of December 31, 2013, the District had approximately 488 miles of recycled water mains and recycled water storage capacity of approximately 4,800 acre feet. Revenues from the sale of recycled water are accounted for as part of the District’s sewer system.

Historic and Projected Water Supply

Set forth below is a summary of the District’s sources of total water supply in acre feet per year for the last five Fiscal Years.

**TABLE 11
IRVINE RANCH WATER DISTRICT
Historic Water Supply In Acre Feet Per Year**

| <i>Fiscal Year</i> | <i>Local Water</i> ⁽¹⁾ | <i>Imported Water</i> | <i>Recycled Water</i> | <i>Total</i> |
|---------------------|-----------------------------------|-----------------------------|-----------------------|--------------|
| 2009 | 45,537 | 35,265 | 22,961 | 103,763 |
| 2010 | 45,358 | 24,744 ⁽²⁾ | 20,848 | 90,950 |
| 2011 | 39,563 | 30,549 ⁽²⁾⁽³⁾⁽⁴⁾ | 20,284 | 90,396 |
| 2012 | 39,409 | 26,155 ⁽²⁾⁽⁴⁾ | 20,602 | 86,166 |
| 2013 ⁽⁵⁾ | 49,967 | 20,151 | 22,983 | 93,101 |

- ⁽¹⁾ Includes groundwater, native water in Irvine Lake and non-potable Irvine Desalter Project water used in the District’s recycled water system. See the caption “—Groundwater—Irvine Desalter Project.” Excludes water pumped from the SGU, which is disposed of via an existing ocean outfall following treatment.
- ⁽²⁾ Imported water supply for Fiscal Years 2010 through 2012 was substantially lower than prior years due primarily to increased conservation, impacts of the economic downturn and mild weather.
- ⁽³⁾ Imported water supply for Fiscal Year 2011 included approximately 5,900 acre feet of stored imported water spilled from Irvine Lake during a December 2010 rain event. Such water was replaced with new native water (storm flows) stored at Irvine Lake.
- ⁽⁴⁾ Includes 5,512 acre feet of water and 8,083 acre feet of water purchased at OCWD’s request in Fiscal Years 2011 and 2012, respectively, in lieu of pumping groundwater. In-lieu water was not purchased in Fiscal Years 2009 and 2010.
- ⁽⁵⁾ Increase from Fiscal Year 2012 reflects growth and the economic recovery within the District’s service area as well as increased irrigation requirements. OCWD did not request that the District purchase in-lieu water in Fiscal Year 2013.

Source: The District.

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Set forth below is a summary of the District’s projection of total water sources for the current and next four Fiscal Years.

TABLE 12
IRVINE RANCH WATER DISTRICT
Projected Water Supply In Acre Feet Per Year

| <i>Fiscal Year</i> | <i>Local Water</i> ⁽¹⁾ | <i>Imported Water</i> | <i>Recycled Water</i> ⁽²⁾ | <i>Total</i> | <i>Percentage Change</i> |
|--------------------|-----------------------------------|-----------------------|--------------------------------------|--------------|--------------------------|
| 2014 | 57,352 | 15,943 | 23,600 | 96,895 | 4.08% |
| 2015 | 58,257 | 16,741 | 24,072 | 99,070 | 2.25 |
| 2016 | 58,257 | 19,574 | 24,553 | 102,384 | 3.35 |
| 2017 | 58,257 | 22,095 | 25,045 | 105,397 | 2.94 |
| 2018 | 58,257 | 24,845 | 25,545 | 108,647 | 3.08 |

⁽¹⁾ Includes groundwater, native water in Irvine Lake and non-potable Irvine Desalter Project water used in the District’s recycled water system. See the caption “—Groundwater—Irvine Desalter Project.” Excludes water pumped from the SGU, which is disposed of via an existing ocean outfall following treatment. Reflects completion of Wells 21 and 22. See the caption “—Groundwater—General.”

⁽²⁾ Reflects expansion of Michelson Water Reclamation Plant (“MWRP”), increasing total recycled water production capacity from 18 million gallons per day (“mgd”) to 28 mgd in Fiscal Year 2014. See the captions “THE SEWER SYSTEM—General” and “FUTURE CAPITAL IMPROVEMENTS—MWRP and Solids Handling.” Recycled water production projected to increase approximately 2% per annum.

Source: The District.

Set forth below is a comparison of the District’s sources of supply as compared to other neighboring agencies supplying water for Fiscal Year 2012.

TABLE 13
IRVINE RANCH WATER DISTRICT
Water Supply Comparison by Source
Fiscal Year 2012

| | <i>Imported Water</i> | <i>Groundwater</i> | <i>Surface Water</i> | <i>Recycled Water</i> |
|---|-----------------------|--------------------|----------------------|-----------------------|
| Irvine Ranch Water District ⁽¹⁾ | 21% | 51% | 4% | 24% |
| City of Anaheim | 46 | 54 | 0 | 0 |
| South Coast Water District ⁽²⁾ | 77 | 13 | 0 | 10 |
| City of Orange | 50 | 45 | 5 | 0 |
| Santa Margarita Water District ⁽²⁾ | 83 | 0 | 0 | 17 |
| City of Tustin ⁽³⁾ | 37 | 63 | 0 | 0 |

⁽¹⁾ Approximately 32% of the District’s water demand is from areas outside of OCWD’s jurisdictional boundaries.

⁽²⁾ These agencies are not located within OCWD’s jurisdictional boundaries.

⁽³⁾ The City of Tustin owns several groundwater projects that are exempt from the BEA.

Source: Municipal Water District of Orange County Water System Operations and Financial Information (August 2013); the District.

THE WATER SYSTEM

General

Through the issuance of general obligation waterworks bonds and other indebtedness, the District has constructed, purchased or acquired capacity in, or connections to, various transmission, pumping, storage and

distribution facilities to convey water into the District, including several major facilities built in cooperation with other water districts and cities.

The development of water supplies and the construction and acquisition of facilities are being carried out under a master plan formulated by the District in 1972 and most recently updated in 2009. Existing uses and planned development within the District will necessitate a projected combined total annual water supply of approximately 124,800 acre feet by 2035.

The District anticipates meeting all of its water supply needs using the above-mentioned water importation and storage facilities, groundwater production facilities and recycled water facilities. The combination of the District's facilities and sources of supply is expected to provide the District with a reliable water supply sufficient to permit the ultimate development as presently planned. Reliability of water supply is further enhanced by the District's storage facilities, which currently provide more than a seven-day supply.

At June 30, 2013, the District had approximately 1,995 miles of water mains in its potable and recycled water systems and storage capacity of approximately 29,800 acre feet, including the District's share of Irvine Lake, a 25,000 acre feet untreated water reservoir, and the District's Sand Canyon, Rattlesnake Canyon, Syphon and San Joaquin Reservoirs, which are recycled water reservoirs with capacities of 750 acre feet, 1,100 acre feet, 450 acre feet and 2,500 acre feet respectively. See the caption "WATER SUPPLY."

See the caption "WATER SUPPLY—Water Banking" for information with respect to the District's water banking programs, which constitute additional sources of water that are not reflected in the discussion of the District's storage facilities above.

In Fiscal Year 2009, the District commenced the engineering design for the Baker WTP. The design was completed in April 2013, with construction anticipated to be complete in July 2015.

When constructed, the Baker WTP is expected to treat to drinking water standards approximately 28 mgd of raw imported water purchased from MWD. During emergencies and planned raw imported water outages, water from Irvine Lake is expected to be supplied to the Baker WTP for treatment to drinking water standards. The Baker WTP will utilize microfiltration and ultraviolet disinfection as the primary treatment processes. Although the plant will be owned and operated by the District, approximately 76% of capacity in the Baker WTP is expected to be held by other participating water agencies located in southern Orange County. The facility will provide an operational source of supply to the District and participating agencies and, in the event of a short-term water shortage emergency, provide regional water reliability to other neighboring water agencies. The project construction cost is estimated at approximately \$103.6 million, which is to be borne by the District and the other participating water agencies in proportion to their participation in the project. The District has financed its 24% share of the costs from general obligation bonds.

See the caption "THE IRVINE RANCH WATER DISTRICT—Current Investments" for a description of an investment made by the District relating to the Baker WTP.

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Historic Water Connections

The following table shows the number of water connections in the District for the five most recent Fiscal Years.

**TABLE 14
IRVINE RANCH WATER DISTRICT
Historic Water Connections⁽¹⁾**

| <i>Fiscal Year</i> | <i>Connections</i> | <i>Percentage Change</i> |
|--------------------|--------------------|--------------------------|
| 2009 | 96,311 | 0.76% |
| 2010 | 97,023 | 0.74 |
| 2011 | 98,637 | 1.66 |
| 2012 | 99,465 | 0.84 |
| 2013 | 101,020 | 1.56 |

⁽¹⁾ Excludes recycled water connections.
Source: The District.

Projected Water Connections

The following table shows the number of water connections projected by the District for the current and next four Fiscal Years.

**TABLE 15
IRVINE RANCH WATER DISTRICT
Projected Water Connections⁽¹⁾**

| <i>Fiscal Year</i> | <i>Connections</i> | <i>Percentage Change</i> |
|--------------------|--------------------|--------------------------|
| 2014 | 103,821 | 2.78% |
| 2015 | 106,151 | 2.24 |
| 2016 | 109,702 | 3.35 |
| 2017 | 112,930 | 2.94 |
| 2018 | 116,413 | 3.08 |

⁽¹⁾ Excludes recycled water connections. Increases in connections reflect District estimates of increased development activity, primarily due to scheduled apartment construction.
Source: The District.

Connection Fees

The District collects a water connection fee for each new connection to finance District facilities. Connection fees vary by Improvement District and range from \$1,400 to \$3,505 for each residential unit and \$5,526 to \$29,618 for each acre of commercial or industrial property. The connection fee is designed to recover the cost of each additional connection and allocate among all Improvement Districts the costs of master planned facilities such as water sources and production facilities, transmission mains, pumping stations, reservoirs and appurtenances and capacity necessary for each Improvement District.

Historic Water Deliveries

The following table presents a summary of historic water deliveries for the District in acre feet per year for the five most recent Fiscal Years. Historic water deliveries vary from historic water supply as a result

of losses in the water system and the timing of billing. Revenues from the sale of recycled water are accounted for as part of the District’s sewer system.

TABLE 16
IRVINE RANCH WATER DISTRICT
Historic Water Deliveries in Acre Feet Per Year

| <i>Fiscal Year</i> | <i>Potable and Untreated</i> | <i>Recycled</i> | <i>Total</i> | <i>Percentage Change</i> |
|---------------------|------------------------------|-----------------|--------------|--------------------------|
| 2009 ⁽¹⁾ | 80,802 | 22,961 | 103,763 | (1.33)% |
| 2010 ⁽¹⁾ | 70,102 | 20,848 | 90,950 | (12.35) |
| 2011 ⁽¹⁾ | 70,112 | 20,284 | 90,396 | (0.61) |
| 2012 ⁽¹⁾ | 65,564 | 20,602 | 86,166 | (4.68) |
| 2013 ⁽²⁾ | 70,118 | 22,983 | 93,101 | 8.05 |

⁽¹⁾ Reduced deliveries resulted from the District’s conservation efforts in response to drought conditions and economic factors affecting the District’s service area.

⁽²⁾ Increase in water deliveries reflects growth and the economic recovery within the District’s service area.

Source: The District.

Projected Water Deliveries

The District estimates that water system deliveries for the current and next four Fiscal Years will be as set forth in the following table. The District currently projects that water deliveries will increase as a result of an increase in connections, as set forth in the table under the caption “—Projected Water Connections,” and improved economic conditions in the District’s service area. Revenues from the sale of recycled water are accounted for as part of the District’s sewer system.

TABLE 17
IRVINE RANCH WATER DISTRICT
Projected Water Deliveries in Acre Feet Per Year

| <i>Fiscal Year</i> | <i>Potable and Untreated</i> | <i>Recycled</i> | <i>Total</i> | <i>Percentage Change</i> |
|--------------------|------------------------------|-----------------|--------------|--------------------------|
| 2014 | 73,295 | 23,600 | 96,895 | 1.20% |
| 2015 | 74,998 | 24,072 | 99,070 | 2.24 |
| 2016 | 77,831 | 24,553 | 102,384 | 3.35 |
| 2017 | 80,352 | 25,045 | 105,397 | 2.94 |
| 2018 | 83,102 | 25,545 | 108,647 | 3.08 |

Source: The District.

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Historic Water Sales and Service Charge Revenues

The following table shows annual water sales and service charge revenues for the five most recent Fiscal Years. The following table does not include revenues from the sale of recycled water, which is accounted for as part of the District’s sewer system.

TABLE 18
IRVINE RANCH WATER DISTRICT
Historic Water Sales and Service Charge Revenues
(Dollars in Thousands)

| <i>Fiscal Year</i> | <i>Sales and Service Charge Revenues⁽¹⁾</i> | <i>Percentage Change</i> |
|--------------------|--|--------------------------|
| 2009 | \$50,940 | 5.00% |
| 2010 | 51,268 | 0.64 |
| 2011 | 54,796 | 6.88 |
| 2012 | 57,558 | 5.04 |
| 2013 | 62,565 | 8.70 |

⁽¹⁾ Includes late payment charges and other penalty revenues.
 Source: The District.

Projected Water Sales and Service Charge Revenues

The following table projects annual water sales and service charge revenues for the current and next four Fiscal Years.

TABLE 19
IRVINE RANCH WATER DISTRICT
Projected Water Sales and Service Charge Revenues
(Dollars in Thousands)

| <i>Fiscal Year</i> | <i>Sales and Service Charge Revenues⁽¹⁾</i> | <i>Percentage Change</i> |
|--------------------|--|--------------------------|
| 2014 | \$64,755 | 3.50% |
| 2015 | 67,021 | 3.50 |
| 2016 | 71,042 | 6.00 |
| 2017 | 75,305 | 6.00 |
| 2018 | 79,823 | 6.00 |

⁽¹⁾ Reflects projected increases in water connections and deliveries described under the captions “—Projected Water Connections” and “—Projected Water Deliveries,” respectively, as well as projected increases in rates described under the caption “—Water System Rates and Charges.” Such rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that the Board of Directors will adopt such rate increases as currently projected. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

Source: The District.

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Largest Water Customers

The following table sets forth the ten largest water customers of the District for Fiscal Year 2013, as determined by annual payments.

TABLE 20
IRVINE RANCH WATER DISTRICT
Ten Largest Water Customers
Fiscal Year 2013

| <i>Customer</i> | <i>Fiscal Year 2013 Payment</i> | <i>Percentage of Total Water Sales Revenues</i> |
|-------------------------------------|-------------------------------------|---|
| 1. The Irvine Company | \$2,484,698 | 3.97% |
| 2. University of California, Irvine | 1,171,157 | 1.87 |
| 3. Jazz Semiconductor | 737,679 | 1.18 |
| 4. B. Braun Medical Inc. | 557,710 | 0.89 |
| 5. Woodbridge Village Association | 332,257 | 0.53 |
| 6. City of Irvine | 277,852 | 0.44 |
| 7. ERP Operating LP | 231,458 | 0.37 |
| 8. Allergan Sales, LLC | 228,426 | 0.37 |
| 9. County of Orange | 216,615 | 0.35 |
| 10. Irvine Unified School District | <u>212,041</u> | <u>0.34</u> |
| TOTAL | <u>\$6,449,893</u> | 10.31% |

Source: The District.

These ten largest customers accounted for approximately 10.31% of water sales revenues in Fiscal Year 2013.

Water System Rates and Charges

Water system rates and charges (other than connection fees) are generally uniform throughout the District. Pumping surcharges apply in higher elevations, and different rates and charges apply in certain areas added to the District by consolidation and annexation since 1998. The average monthly service charge for residential water meters is \$9.85. The monthly service charges for commercial and industrial water meters range from \$9.85 to \$3,301.85 based on meter size. Quantity charges are set according to a water conservation oriented ascending block rate structure with rates ranging from \$0.91 to \$9.84 per 100 cubic feet (“ccf”). Recycled water rates for irrigation are set at 90% of the potable rate. Set forth below is comparison of the District’s water bill for a typical residential customer as compared to neighboring communities. Since Fiscal Year 2006, the District has increased its water system rates and charges by an average of approximately 6.5% each year for an average residential customer using approximately 18 ccf of water per month.

The projected water system revenues set forth under the captions “—Projected Water Sales and Service Charge Revenues” and “WATER AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” reflect projected water rate increases of between 3.5% and 6% in Fiscal Years 2014 through 2018, including a projected rate increase of 3.5% beginning July 1, 2014 that is expected to be brought before the Board of Directors in spring 2014. Such water rate increases are subject to the notice, hearing and protest provisions of Proposition 218 described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that the Board of Directors will adopt such rate increases as currently projected.

TABLE 21
IRVINE RANCH WATER DISTRICT
Typical Residential Customer Water Bills⁽¹⁾

| <i>Water Service Provider</i> | <i>Charge⁽²⁾</i> |
|-------------------------------|-----------------------------|
| City of Newport Beach | \$69.91 |
| City of Costa Mesa | 65.90 |
| City of Santa Ana | 52.59 |
| City of Huntington Beach | 42.88 |
| City of Tustin | 42.58 |
| City of Anaheim | 41.73 |
| City of Orange | 38.36 |
| District | 29.83 |

⁽¹⁾ Based on 18 ccf (for the District first 8 ccf at low volume rate of \$0.91 and next 10 ccf at \$1.27).

⁽²⁾ As of July 1, 2012, except for District charge, which is as of July 1, 2013. Excludes *ad valorem* assessments levied by the District.

Source: The District.

THE SEWER SYSTEM

General

The District, following voter approval in 1965, is authorized by law to acquire, construct, operate and furnish facilities and services for the collection, treatment, reclamation and disposal of wastewater and may contract with others for such purposes. The District has an extensive network of gravity sewers, force mains, wastewater lift stations and siphons that convey wastewater to two District-owned treatment plants. At June 30, 2013, the District had approximately 968 miles of sewer mains and treatment plant capacity of approximately 35.5 mgd at the MWRP and the Los Alisos Water Reclamation Plant (“LAWRP”). More than 8.3 billion gallons of sewage were treated by the District during Fiscal Year 2013.

During Fiscal Year 1986, the District cooperated with Orange County Sanitation District (“OCSD”) to form Sanitation District 14 (functionally replaced by “Revenue Area 14” of OCSD, upon the consolidation of the several sanitation districts comprising OCSD’s predecessor, the County Sanitation Districts of Orange County, in 1998), which overlays a substantial portion of the District’s territory. Under an agreement entered into between the District and OCSD in connection with such formation, the District paid approximately \$34 million for an approximately 6% interest in OCSD’s sewage processing facilities (such percentage of interest will vary over time pursuant to a formula set forth in the agreement between OCSD and the District). This agreement currently provides treatment capacity (in addition to the capacity at District-owned facilities, such as the MWRP and the LAWRP) of up to 15 mgd. The agreement also provides for the purchase by the District of certain additional capacity in OCSD sewage processing facilities determined from annual flows. In Fiscal Year 2013, the District utilized approximately 875 million gallons of capacity pursuant to its agreement with OCSD. Currently, approximately 88% of the District’s wastewater is treated by the MWRP and LAWRP operated by the District, and approximately 12% is treated by OCSD. A small portion of the wastewater (less than 1%) from the District’s service area that is adjacent to the Santa Margarita Water District is treated by the Santa Margarita Water District pursuant to contract.

Currently, approximately 71% of all wastewater collected by the District is treated as described above and recycled or stored in seasonal storage reservoirs for later treatment and recycling. The remainder of the wastewater collected by the District is diverted to OCSD for ultimate disposal into the Pacific Ocean through OCSD’s two ocean outfall pipelines or recharged into the Orange County groundwater basin through OCWD’s Groundwater Replenishment System.

Ultimately, the District plans to expand capacity for its treatment facilities to approximately 40.5 mgd in order to: (i) increase recycled water production and utilization; (ii) decrease exposure to external treatment costs and operational constraints; and (iii) decrease dependencies on imported water supplies. See the caption “FUTURE CAPITAL IMPROVEMENTS.”

The District has evaluated alternative approaches to handling its wastewater solids. The District is proceeding with the design of facilities for handling MWRP solids, currently conveyed to Fountain Valley for treatment by OCSD, as well as solids from the District’s LAW RP and other potential participating agencies. New capital facilities constructed at the MWRP to dewater and dispose of solids from this facility are estimated to cost \$210 million. Construction of solids handling facilities at the MWRP commenced in May 2013 with an anticipated completion in Fiscal Year 2017.

OCSD faces various challenges in the continued treatment of sewage. A description of these challenges as well as a variety of other operating information with respect to OCSD is included in certain disclosure documents prepared by OCSD. OCSD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. OCSD has also entered into certain continuing disclosure agreements pursuant to which OCSD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12. Such official statements, other disclosure documents, annual reports and notices (collectively, the “OCSD Information”) are filed with EMMA at <http://emma.msrb.org>. The OCSD Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. OCSD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE SERIES 2011A-1 BONDS TO PROVIDE OCSD INFORMATION TO THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS.

OCSD HAS NOT REVIEWED THIS REMARKETING STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO OCSD. OCSD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE SERIES 2011A-1 BONDS UNDER RULE 15c2-12.

Historic Sewer System and Recycled Water Connections

The following table shows the number of sewer and recycled water connections in the District for the five most recent Fiscal Years.

**TABLE 22
IRVINE RANCH WATER DISTRICT
Historic Sewer and Recycled Water Connections**

| <i>Fiscal Year</i> | <i>Connections</i> | <i>Percentage Change</i> |
|--------------------|--------------------|--------------------------|
| 2009 | 91,700 | 0.84% |
| 2010 | 92,407 | 0.77 |
| 2011 | 93,992 | 1.72 |
| 2012 | 94,983 | 1.05 |
| 2013 | 96,643 | 1.75 |

Source: The District.

Projected Sewer and Recycled Water Connections

The following table shows the projected number of sewer and recycled water connections for the current and next four Fiscal Years.

TABLE 23
IRVINE RANCH WATER DISTRICT
Projected Sewer and Recycled Water Connections

| <i>Fiscal Year</i> | <i>Connections</i> | <i>Percentage Change</i> |
|--------------------|--------------------|--------------------------|
| 2014 | 99,444 | 2.90% |
| 2015 | 101,774 | 2.34 |
| 2016 | 105,325 | 3.49 |
| 2017 | 108,553 | 3.06 |
| 2018 | 112,036 | 3.21 |

⁽¹⁾ Increases in connections beginning in Fiscal Year 2014 reflect District estimates of increased development activity.
Source: The District.

Connection Fees

The District collects a sewer connection fee for each new connection to finance District sewer facilities. Connection fees vary by Improvement District and range from \$2,134 to \$24,500 for each residential unit and \$8,831 to \$60,485 for each acre of commercial or industrial property. The connection fee is designed to recover the cost of each additional connection and allocate among all Improvement Districts the costs of master planned facilities such as transmission mains, pumping stations, treatment facilities and appurtenances and capacity necessary to serve each Improvement District.

Historic Sewer Daily Average Flow

The following table shows the daily average sewer flow in millions of gallons per day for the five most recent Fiscal Years.

TABLE 24
IRVINE RANCH WATER DISTRICT
Historic Sewer Daily Average Flow

| <i>Fiscal Year</i> | <i>Daily Average Flow (mgd)⁽¹⁾</i> | <i>Percentage Change</i> |
|--------------------|---|--------------------------|
| 2009 | 29.6 | 0.00% |
| 2010 | 27.5 | (7.09) ⁽²⁾ |
| 2011 | 27.4 | (0.36) ⁽²⁾ |
| 2012 | 27.2 | (0.73) ⁽²⁾ |
| 2013 | 27.8 | 2.21 |

⁽¹⁾ Includes District flow treated by OCSD.

⁽²⁾ Reduction in flows reflects reduced water use, including as a result of conservation efforts.

Source: The District.

Projected Sewer Daily Average Flow

The following table shows the projected daily average sewer flow in millions of gallons per day for the current and next four Fiscal Years.

**TABLE 25
IRVINE RANCH WATER DISTRICT
Projected Sewer Daily Average Flow**

| <i>Fiscal Year</i> | <i>Daily Average Flow (mgd)⁽¹⁾</i> | <i>Percentage Change</i> |
|--------------------|---|------------------------------|
| 2014 | 28.5 | 2.52% |
| 2015 | 28.8 | 1.05 |
| 2016 | 29.4 | 2.08 |
| 2017 | 30.6 | 4.08 |
| 2018 | 31.7 | 3.59 |

⁽¹⁾ Includes flow treated by OCSO.
Source: The District.

Historic Recycled Water Sales and Sewer Service Charge Revenues

The following table shows the recycled water sales and sewer service charge revenues for the five most recent Fiscal Years.

**TABLE 26
IRVINE RANCH WATER DISTRICT
Historic Recycled Water Sales and Sewer Service Charge Revenues
(Dollars in Thousands)**

| <i>Fiscal Year</i> | <i>Recycled Water Sales and Sewer Service Charge Revenues</i> | <i>Percentage Change</i> |
|--------------------|---|--------------------------|
| 2009 | \$41,157 | 3.38% |
| 2010 | 45,343 | 10.17 ⁽¹⁾ |
| 2011 | 45,375 | 0.07 |
| 2012 | 49,234 | 8.50 ⁽²⁾ |
| 2013 | 53,085 | 7.82 ⁽³⁾ |

⁽¹⁾ Reflects 20% increase in fixed service charge in Fiscal Year 2010 to cover increased operating costs, replacements, and capital enhancements and 7% increase in commodity rate in Fiscal Year 2010.

⁽²⁾ Reflects 2.37% increase in fixed service charge in Fiscal Year 2012 to cover increased operating costs, replacements, and capital enhancements and 1.83% increase in commodity rate in Fiscal Year 2012.

⁽³⁾ Reflects increase in sewer daily average flow described under the caption “—Historic Sewer Daily Average Flow” as well as increase in recycled water and sewer rates described under caption “—Sewer System Rates and Charges.”

Source: The District.

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Projected Recycled Water Sales and Sewer Service Charge Revenues

The following table shows the projected recycled water sales and sewer service charge revenues for the current and next four Fiscal Years.

TABLE 27
IRVINE RANCH WATER DISTRICT
Projected Recycled Water Sales and Sewer Service Charge Revenues
(Dollars in Thousands)

| <i>Fiscal Year</i> | <i>Recycled Water Sales and Sewer Service Charge Revenues⁽¹⁾</i> | <i>Percentage Change</i> |
|--------------------|---|------------------------------|
| 2014 | \$54,980 | 3.57% |
| 2015 | 57,918 | 5.34 |
| 2016 | 61,392 | 6.00 |
| 2017 | 65,079 | 6.00 |
| 2018 | 68,982 | 6.00 |

⁽¹⁾ Reflects increases in projected sewer connections and daily average sewer flow described under the captions “—Projected Sewer and Recycled Water Connections” and “—Projected Sewer Daily Average Flow,” respectively, as well as projected increases in recycled water and sewer rates described under the captions “THE WATER SYSTEM—Water System Rates and Charges” and “THE SEWER SYSTEM—Sewer System Rates and Charges.” Such rate increases are subject to the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that the Board of Directors will adopt such rate increases as currently projected. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

Source: The District.

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Largest Sewer Service Customers

The following table sets forth the ten largest sewer service customers of the District for Fiscal Year 2013, as determined by annual payments.

**TABLE 28
IRVINE RANCH WATER DISTRICT
Ten Largest Sewer Service Customers
Fiscal Year 2013**

| <i>Customer</i> | <i>Fiscal Year 2013 Payment</i> | <i>Percentage of Total Recycled Water and Sewer Service Revenues</i> |
|---|-------------------------------------|--|
| 1. The Irvine Company | \$3,143,384 | 5.92% |
| 2. City of Irvine | 1,707,500 | 3.22 |
| 3. University of California, Irvine | 1,676,987 | 3.16 |
| 4. California Department of Transportation District 12 | 1,078,792 | 2.03 |
| 5. B. Braun Medical Inc. | 505,642 | 0.95 |
| 6. Irvine Unified School District | 469,651 | 0.88 |
| 7. Allergan Sales, LLC | 288,928 | 0.54 |
| 8. Royalty Carpet Mills | 278,100 | 0.52 |
| 9. Crystal Cove Community Association | 277,456 | 0.52 |
| 10. The Park at Spectrum Apartments | <u>266,468</u> | <u>0.50</u> |
| TOTAL | <u>\$9,692,908</u> | 18.24% |

Source: The District.

These ten largest customers accounted for approximately 18.24% of total sewer revenues for Fiscal Year 2013.

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Sewer System Rates and Charges

Residential users pay a fixed monthly service charge which ranges from \$13.80 to \$18.40. Commercial and industrial users pay \$18.40 for the first ten ccf of water use and from \$2.110 to \$2.213 per ccf thereafter. Set forth below is a comparison of the District’s sewer bills for a typical residential customer as compared to other neighboring communities. Since Fiscal Year 2006, the District has increased its fixed monthly service charge by an average of approximately 10.0% each year.

**TABLE 29
IRVINE RANCH WATER DISTRICT
Typical Residential Customer Sewer Bill**

| <i>Sewer Service Provider</i> | <i>Charge⁽¹⁾</i> |
|-------------------------------|-----------------------------|
| City of Tustin | \$42.67 |
| City of Santa Ana | 39.33 |
| City of Newport Beach | 36.47 |
| City of Huntington Beach | 36.36 |
| City of Orange | 25.67 |
| City of Costa Mesa | 25.67 |
| City of Anaheim | 25.67 |
| District | 13.80 – 18.40 |

⁽¹⁾ As of July 1, 2012, except for District charge, which is as of July 1, 2013. Excludes *ad valorem* assessments levied by District.

Source: The District.

The projected sewer system and recycled water sales revenues set forth under the captions “—Projected Recycled Water Sales and Sewer Service Charge Revenues” and “WATER AND SEWER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” reflect projected sewer rate increases of between 3.5% to 6% in Fiscal Years 2014 through 2018 and projected recycled water rate increases of between 2% and 5% in Fiscal Years 2014 through 2018, including projected increases in sewer rates and recycled water rates effective July 1, 2014 that are expected to be brought before the Board of Directors in spring 2014. Such rate increases are subject to the notice, hearing and protest provisions of Proposition 218 described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that the Board of Directors will adopt such rate increases as currently projected.

FUTURE CAPITAL IMPROVEMENTS

The District anticipates spending approximately \$408,494,000 on future water, recycled water and sewer system improvements during the current and the next four Fiscal Years. The District anticipates financing such improvements through a combination of general obligation bonds, District revenues and fund balances in Fiscal Years 2014 through 2018. The District anticipates that approximately \$300,000,000 of such improvements will be financed from proceeds of general obligation bonds, some of which have already been issued, and that approximately \$108,494,000 of such improvements will be financed from funds on hand and District revenues. The following table sets forth the District’s projected capital improvement projects for the current and next four Fiscal Years:

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TABLE 30
IRVINE RANCH WATER DISTRICT
Projected Water, Recycled Water and Sewer Systems Capital Improvements
For Fiscal Years 2014 through 2018

| <i>Project</i> | <i>2014</i> | <i>2015</i> | <i>2016</i> | <i>2017</i> | <i>2018</i> | <i>Total</i> |
|-------------------------------|---------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| MWRP and Solids Handling | \$39,733,151 | \$ 73,222,700 | \$ 76,208,000 | \$10,868,400 | \$ 2,459,900 | \$202,492,151 |
| OCS D / CORF | 1,752,656 | 2,539,800 | 3,203,900 | 3,335,000 | 4,879,500 | 15,710,856 |
| Water Supply Reliability | 12,814,838 | 19,578,100 | 13,712,800 | 3,151,500 | 9,688,900 | 58,946,138 |
| Development-Related Expansion | 12,538,345 | 12,886,500 | 16,061,100 | 10,525,900 | 12,430,000 | 64,441,845 |
| Replacement and Refurbishment | 19,276,043 | 12,607,500 | 9,837,700 | 4,150,400 | 1,143,400 | 47,015,043 |
| Operational Improvements | <u>8,910,492</u> | <u>7,051,700</u> | <u>6,779,100</u> | <u>4,550,600</u> | <u>1,692,100</u> | <u>28,983,992</u> |
| Total | \$95,025,525 | \$127,886,300 | \$125,802,600 | \$36,581,800 | \$32,293,800 | \$417,590,025 |

MWRP and Solids Handling

The Phase 2 expansion of the MWRP will increase treatment capacity from 18 to 28 mgd. Primary components of the expansion include new influent sewers; influent flow metering facilities; centralized headworks facilities; primary clarification facilities; primary effluent pumping station; flow equalization basin modifications; nitrification/denitrification membrane bioreactor facilities; high rate clarification facilities; ultra-violet disinfection facilities; rehabilitation of existing chlorine contact chambers; effluent pumping station modifications; chemical storage and feed facilities; associated electrical, instrumentation and controls, and telemetry improvements; demolition work; site work and driven pile foundations; yard piping and grading modifications; and site paving and restoration work. The Phase 2 expansion of MWRP is anticipated to be completed by the end of Fiscal Year 2014. The solids handling capital project includes the design and construction of facilities for thickening, acid-phase anaerobic digestion, dewatering, drying and pelletization, energy generation, and use of pellets as a fertilizer or e-fuel. It also includes a solids receiving station to allow processing of dewatered sludge from the Los Alisos Water Recycled Water Plant for drying and pelletization. In addition, facilities for the receipt and transfer of fats, oil and grease to the digesters is being designed and will be constructed to increase methane and energy production capabilities. The solids handling capital project is anticipated to be completed in Fiscal Year 2018. The District anticipates that proceeds from the District's previously issued Series 2010B Bonds will be used to finance a portion of the cost of this project.

OCS D CORF

OCS D's Capital Outlay Revolving Fund ("CORF") funds OCS D projects such as plant upgrades for secondary treatment and the Groundwater Replenishment System. The District funds its share of the CORF based on the District's percentage share of OCS D's total wastewater flow. Wastewater flows from the District presently comprise approximately 2% – 3% of OCS D flows and are expected to comprise approximately 3% – 4% in future years. Proceeds from the previously issued Series 2010B Bonds are being used to finance a portion of this project. See the caption "THE SEWER SYSTEM—General—OCS D" above.

Water Supply Reliability

Water supply reliability projects include the acquisition and construction of water banking facilities in Kern County and the Baker WTP, expansion of Syphon Reservoir and other projects to increase water supply reliability, including, but not limited to, booster pump stations and interagency pipeline construction. Proceeds from the previously issued Series 2010B Bonds are being used to finance a portion of the cost of these projects. See the captions "WATER SUPPLY" and "THE WATER SYSTEM—General."

Development-Related Expansion

Development-related expansion improvements include construction of new water, recycled water and sewer improvements to serve new developments.

Replacement and Refurbishment

Replacement and refurbishment improvements consist of repairs and restoration to existing water, recycled water and sewer system facilities.

Operational Improvements

Operational improvements consist of optimizing District facilities and include improvements to the District's water and wastewater Operations Center, adding water quality mixing systems to existing reservoirs, expanding the reliability of the Supervisory Control and Data Acquisition system, and relocating District facilities as required by interagency projects.

WATER AND SEWER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the most recent financial statements of the District audited by Mayer Hoffman McCann P.C., Certified Public Accountants (the "Auditor"), are included as Appendix B (the "Financial Statements") and should be read in their entirety. The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the District as of June 30, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. The Auditor has not reviewed the contents of this Remarketing Statement, and the District has not sought the Auditor's consent to the inclusion of the Auditor's report in the Financial Statements in this Remarketing Statement.

Effect of Federal Sequester

On March 1, 2013, the federal government announced the implementation of certain automatic budget cuts known as the sequester, including reductions in Build America Bond ("BAB") interest subsidy payments ("BAB Credits"). As set forth under the captions "—Historic Operating Results and Debt Service Coverage" and "—Projected Operating Results and Debt Service Coverage," the District's Series 2010B Bonds are BABs and the operating results for Fiscal Year 2013 and projected operating results for Fiscal Years 2014 through 2018 shown therein reflect the announced reduction in BAB Credits. The District does not expect the sequester to have a material adverse effect on its ability to make payments of interest on the Series 2010B Bonds. To date, the District has not observed a material adverse effect on District operations as a result of the sequester. While the District continues to monitor the effects of the sequester on District operations, the District does not currently expect the sequester to have a material adverse effect on the ability of the District to make payments of principal of and interest on the Series 2011A-1 Bonds from Net Revenues.

Historic Operating Results and Debt Service Coverage

The following summary of operating results of the District for the last five Fiscal Years is derived from the Financial Statements and audited financial statements of the District for prior Fiscal Years and excludes certain non-cash items and includes certain other adjustments. Such summary operating results are qualified in their entirety by reference to such statements, including the notes thereto.

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TABLE 31
IRVINE RANCH WATER DISTRICT
Historic Operating Results and Debt Service Coverage
Fiscal Years 2009 through 2013
(in Thousands)

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-------------------|-------------------|----------------------------|------------------------------|-----------------------------|
| REVENUES | | | | | |
| Water sales and service charges | \$ 50,940 | \$ 51,268 | \$ 54,796 | \$ 57,558 | \$ 62,565 |
| Recycled water sales and sewer service charges | 41,157 | 45,343 | 45,375 | 49,234 | 53,085 |
| Connection fees | 4,535 | 5,818 | 10,572 | 9,030 | 17,314 |
| Net real estate income | 7,010 | 5,624 | 5,649 | 6,736 | 6,566 |
| Interest income | 4,365 | 2,191 | 2,599 | 1,738 | 1,549 |
| Net earnings on JPA | 2,990 | 4,196 | 12,444 ⁽¹⁰⁾ | 11,927 | 20,294 ⁽¹⁰⁾ |
| Available 1% Property Tax Revenues ⁽¹⁾ | 18,361 | 19,346 | 22,396 | 25,858 | 25,719 |
| Other ⁽²⁾ | <u>9,918</u> | <u>10,706</u> | <u>7,987</u> | <u>6,141</u> | <u>8,323</u> |
| Total Revenues | \$ 139,276 | \$ 144,492 | \$ 161,818 | \$ 168,222 | \$ 195,415 |
| OPERATION AND MAINTENANCE EXPENSES | | | | | |
| Water services | \$ 40,333 | \$ 40,103 | \$ 42,383 | \$ 40,593 | \$ 48,911 |
| Sewer services | 27,402 | 27,804 | 30,787 | 26,817 | 36,688 ⁽¹⁴⁾ |
| Administrative and general | 20,248 | 22,904 | 21,332 | 27,182 ⁽¹²⁾ | 22,667 ⁽¹⁴⁾ |
| Customer accounts | 3,234 | 3,772 | 3,737 | 3,737 | 3,753 |
| Other | <u>1,535</u> | <u>1,286</u> | <u>989</u> | <u>10,713⁽¹³⁾</u> | <u>6,110⁽¹⁵⁾</u> |
| Total Operation & Maintenance Expenses | \$ 92,752 | \$ 95,869 | \$ 99,228 | \$ 109,042 | \$ 118,129 |
| NET REVENUES | \$ 46,524 | \$ 48,623 | \$ 62,590 | \$ 59,180 | \$ 77,286 |
| PARITY OBLIGATIONS | | | | | |
| Series 2011A-1/A-2 Bonds | \$ 0 | \$ 0 | \$ 35 | \$ 2,284 | \$ 2,306 |
| Series 2010B Bonds ⁽³⁾ | 0 | 0 | 4,080 | 7,533 | 7,519 |
| 2010 Installment Sale Agreement ⁽⁴⁾ | 0 | 0 | 7,680 | 7,977 | 8,300 |
| Certificates of Participation ⁽⁵⁾ | 2,798 | 2,827 | 0 | 0 | 0 |
| 1997 State Loan #3 | 227 | 227 | 226 | 226 | 226 |
| Prior Reimbursement Agreements | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Parity Debt Service | \$ 3,025 | \$ 3,119 | \$ 12,021 | \$ 18,020 | \$ 18,351 |
| PARITY OBLIGATION COVERAGE⁽⁶⁾ | 15.4x | 15.6x | 5.2x⁽¹¹⁾ | 3.3x | 4.2x |
| Revenues Available For Subordinate Debt Service | \$ 43,499 | \$ 45,504 | \$ 50,569 | \$ 41,160 | \$ 58,935 |
| SUBORDINATE OBLIGATIONS | | | | | |
| Swap Payments ⁽⁷⁾ | \$ 5,694 | \$ 7,391 | \$ 7,734 | \$ 7,734 | \$ 7,452 |
| State Loans and SCWD Debt ⁽⁸⁾ | 481 | 381 | 308 | 308 | 308 |
| 1986 Certificates of Participation ⁽⁵⁾ | <u>3,391</u> | <u>2,605</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Subordinate Debt Service | \$ 9,566 | \$ 10,377 | \$ 8,042 | \$ 8,042 | \$ 7,760 |
| Sources of Payment for Ad Valorem Assessment Bonds: | | | | | |
| Remaining Revenues | \$ 33,933 | \$ 35,127 | \$ 42,527 | \$ 33,118 | \$ 51,175 |
| 1% Pledged Property Tax Revenues ⁽⁹⁾ | \$ 7,922 | 7,804 | 4,593 | 3,292 | 3,546 |
| Ad valorem Assessments | <u>9,959</u> | <u>11,244</u> | <u>11,875</u> | <u>11,876</u> | <u>11,817</u> |
| Total Funds Available for Ad Valorem Assessment Bonds | \$ 51,814 | \$ 54,175 | \$ 58,995 | \$ 48,286 | \$ 66,538 |
| Ad Valorem Assessment Bond Debt Service | <u>(19,235)</u> | <u>(21,179)</u> | <u>(16,899)</u> | <u>(16,899)</u> | <u>(17,129)</u> |
| NET REVENUES AVAILABLE FOR OTHER PURPOSES | \$ 32,579 | \$ 32,996 | \$ 42,096 | \$ 31,387 | \$ 49,409 |

⁽¹⁾ Represents 1% Property Tax Revenues available to pay debt service on Parity Obligations after payment of debt service on bonds of the District secured by a pledge of the District's share of the Orange County 1% general *ad valorem* property tax pursuant to Resolution No. 1992-48, adopted by the Board of Directors of the District on November 23, 1992, or Resolution 2002-10, adopted by the Board of Directors of the District on April 8, 2002 (collectively, the "Secured Bonds") from 1% Property Tax Revenues and *ad valorem* assessments.

(Footnotes Continued on Following Page)

(Continued from Previous Page)

- (2) Other Revenues includes golf course lease, cell site leases, conservation revenue, penalty revenue, grants and Allen-McColloch pipeline income.
- (3) Debt Service net of BAB Credit on Series 2010B Bonds. Fiscal Year 2013 amount reflects announced reductions in BAB Credits. See the caption “—Effect of Federal Sequester.”
- (4) Entered into in February 2010 in connection with the prepayment of the 2008 Certificates of Participation and the 1986 Certificates of Participation.
- (5) Prepaid in February 2010.
- (6) Total Net Revenues and Assessment Proceeds divided by Total Parity Debt Service.
- (7) Net swap payments made.
- (8) Santiago County Water District was consolidated into the District as of July 1, 2006.
- (9) Represents District’s share of 1% Property Tax Revenues which, together with the *ad valorem* assessments, is sufficient to pay debt service on the Secured Bonds. Decreases in Fiscal Years 2012 and 2013 reflect \$6.8 million in scheduled mandatory sinking fund payments and redemption of approximately \$3.1 million in Secured Bonds.
- (10) Refunding of JPA Bonds in Fiscal Year 2010 resulted in a savings of approximately \$32.0 million, of which a portion was realized in each of Fiscal Years 2011, 2013 and 2014. The remaining savings are expected to be realized at maturity in 2014. See the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Joint Powers Authority Transactions.”
- (11) Reduced Parity Obligation coverage beginning in Fiscal Year 2011 reflects scheduled increases in Parity Obligation debt service.
- (12) Increase from Fiscal Year 2011 reflects expenses related to increased solids handling capacity at OCSD, which is expected to continue until December 2016, when the District expects to complete construction of its own facility to treat and dispose of solids. See the caption “THE SEWER SYSTEM—General.”
- (13) Increase from Fiscal Year 2011 reflects capital improvement project writeoffs in accordance with GASB Statement 51 (Accounting and Financial Reporting for Intangible Assets) in the total amount of approximately \$10.3 million.
- (14) Increase from Fiscal Year 2012 amount in Fiscal Year 2013 reflects recording of OCSD expenses, which were previously treated as an administrative and general line item, in the sewer services line item. See the caption “THE SEWER SYSTEM—General.”
- (15) Decrease from Fiscal Year 2012 amount in Fiscal Year 2013 reflects significant reduction in capital improvement project reclassifications and writeoffs. See Footnote 13.

Source: The District.

Projected Operating Results and Debt Service Coverage

The District’s estimated projected operating results for the current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District’s estimate of projected financial results based on the District’s assumptions, including the assumptions in the footnotes to the chart set forth below. Such assumptions 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.

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TABLE 32
IRVINE RANCH WATER DISTRICT
Five-Year Debt Service Coverage Forecast
Fiscal Years 2014 through 2018
(in Thousands)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| REVENUES | | | | | |
| Water sales and service charges ⁽¹⁾ | \$ 66,319 | \$ 69,635 | \$ 73,117 | \$ 76,772 | \$ 80,611 |
| Recycled water sales and sewer service charges ⁽²⁾ | 55,739 | 58,526 | 61,453 | 64,525 | 67,751 |
| Connection fees ⁽³⁾ | 14,544 | 15,271 | 16,034 | 16,836 | 17,678 |
| Net real estate income ⁽⁴⁾ | 7,401 | 7,494 | 7,564 | 7,645 | 7,727 |
| Interest income ⁽⁵⁾ | 1,276 | 1,048 | 2,044 | 3,000 | 4,068 |
| Net earnings on JPA ⁽⁶⁾ | 19,355 | 0 | 0 | 0 | 0 |
| Available 1% Property Tax Revenues ⁽⁷⁾ | 23,887 | 24,904 | 25,858 | 27,652 | 29,501 |
| Other ⁽⁸⁾ | <u>8,739</u> | <u>9,176</u> | <u>9,635</u> | <u>10,117</u> | <u>10,622</u> |
| Total Revenues | \$ 197,260 | \$ 186,054 | \$ 195,705 | \$ 206,547 | \$ 217,958 |
| OPERATION AND MAINTENANCE EXPENSES | | | | | |
| Water services ⁽⁹⁾ | \$ 51,846 | \$ 53,660 | \$ 55,538 | \$ 57,482 | \$ 59,494 |
| Sewer services ⁽¹⁰⁾ | 38,156 | 39,491 | 40,873 | 42,304 | 43,784 |
| Administrative and general ⁽¹⁰⁾ | 23,460 | 24,281 | 25,131 | 26,011 | 26,921 |
| Customer accounts ⁽¹⁰⁾ | 3,884 | 4,020 | 4,161 | 4,307 | 4,457 |
| Other ⁽¹¹⁾ | <u>4,094</u> | <u>2,661</u> | <u>2,581</u> | <u>2,633</u> | <u>2,685</u> |
| Total Operation & Maintenance Expenses | \$ 121,440 | \$ 124,113 | \$ 128,284 | \$ 132,737 | \$ 137,341 |
| NET REVENUES | \$ 75,820 | \$ 61,941 | \$ 67,421 | \$ 73,810 | \$ 80,617 |
| ASSESSMENT PROCEEDS⁽¹²⁾ | \$ 5,437 | \$ 6,393 | \$ 6,694 | \$ 6,477 | \$ 7,789 |
| TOTAL NET REVENUES AND ASSESSMENT PROCEEDS | \$ 81,257 | \$ 68,334 | \$ 74,115 | \$ 80,287 | \$ 88,406 |
| PARITY OBLIGATIONS | | | | | |
| Series 2011A-1/A-2 Bonds ⁽¹³⁾ | \$ 2,441 | \$ 2,675 | \$ 3,124 | \$ 3,682 | \$ 4,168 |
| Series 2010B Bonds ⁽¹⁴⁾ | 7,825 | 7,825 | 7,825 | 7,825 | 7,825 |
| 2010 Installment Sale Agreement ⁽¹⁵⁾ | 8,753 | 9,098 | 9,487 | 9,812 | 8,473 |
| 1997 State Loan #3 ⁽¹⁵⁾ | 227 | 227 | 227 | 227 | 227 |
| Prior Reimbursement Agreements | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Parity Debt Service | \$ 19,246 | \$ 19,825 | \$ 20,663 | \$ 21,546 | \$ 20,693 |
| PARITY OBLIGATION COVERAGE⁽¹⁶⁾ | 4.2x | 3.4x | 3.6x | 3.7x | 4.3x |
| Revenues Available For Subordinate Debt Service | \$ 62,011 | \$ 48,509 | \$ 53,452 | \$ 58,741 | \$ 67,713 |
| SUBORDINATE OBLIGATIONS | | | | | |
| Swap Payments ⁽¹⁷⁾ | \$ 7,410 | \$ 7,150 | \$ 6,630 | \$ 5,915 | \$ 5,294 |
| State Loans and SCWD Debt ⁽¹⁵⁾ | <u>308</u> | <u>308</u> | <u>308</u> | <u>308</u> | <u>308</u> |
| Total Subordinate Debt Service | \$ 7,718 | \$ 7,458 | \$ 6,938 | \$ 6,223 | \$ 5,602 |
| Sources of Payment for Ad Valorem Assessment Bonds: | | | | | |
| Remaining Revenues | \$ 54,293 | \$ 41,051 | \$ 46,514 | \$ 52,518 | \$ 62,111 |
| 1% Pledged Property Tax Revenues ⁽¹⁸⁾ | \$ 3,013 | \$ 2,803 | \$ 2,681 | \$ 2,599 | \$ 2,564 |
| Ad valorem Assessments ⁽¹⁹⁾ | <u>5,297</u> | <u>4,663</u> | <u>4,694</u> | <u>5,594</u> | <u>5,006</u> |
| Total Funds Available for Ad Valorem Assessment Bonds | \$ 62,603 | \$ 48,517 | \$ 53,889 | \$ 60,711 | \$ 69,681 |
| Ad Valorem Assessment Bond Debt Service ⁽²⁰⁾ | <u>(14,524)</u> | <u>(12,885)</u> | <u>(15,064)</u> | <u>(16,351)</u> | <u>(17,273)</u> |
| NET REVENUES AVAILABLE FOR OTHER PURPOSES | \$ 48,079 | \$ 35,632 | \$ 38,825 | \$ 44,360 | \$ 52,408 |

⁽¹⁾ Projected to increase 6% from Fiscal Year 2013 amount in Fiscal Year 2014 and 5% per annum thereafter. See the caption "THE WATER SYSTEM—Projected Water Sales and Service Charge Revenues."

(Footnotes Continued on Following Page)

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- (2) Projected to increase 5% per annum from Fiscal Year 2013 amount. See the caption “THE SEWER SYSTEM—Projected Recycled Water Sales and Sewer Service Charge Revenues.”
- (3) Projected to increase 5% per annum from Fiscal Year 2014 budgeted amount.
- (4) Based on existing and expected leases. Increase from Fiscal Year 2013 amount represents a 3% increase in net operating income for Sycamore Canyon Apartments, a full year of income from two tenants at the Sand Canyon Professional Center and increased income as a result of 98% occupancy rate for all three commercial buildings. See the captions “THE IRVINE RANCH WATER DISTRICT—Current Investments” and “THE IRVINE RANCH WATER DISTRICT—Projected Net Real Estate Income.”
- (5) Assumes interest rates increasing from 0.38% in Fiscal Year 2014 to 2% in Fiscal Year 2018.
- (6) JPA Bonds mature in Fiscal Year 2014. See the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Joint Powers Authority Transactions.”
- (7) Represents 1% Property Tax Revenues available to pay Debt Service on Parity Obligations after payment of debt service on Secured Bonds from 1% Property Tax Revenues and applicable *ad valorem* assessments. Projected fluctuation in 1% Property Tax Revenues is a result of uneven debt service on Secured Bonds. See the caption “THE IRVINE RANCH WATER DISTRICT—1% Property Tax Revenues.”
- (8) Includes, golf course lease, cell site leases, conservation revenue, penalty revenue, grants and Allen-McColloch pipeline income. Projected to increase 5% per annum from Fiscal Year 2013 amount.
- (9) Projected to increase 6% from Fiscal Year 2013 amount in Fiscal Year 2014 and 3.5% per annum thereafter.
- (10) Projected to increase 3.5% per annum from Fiscal Year 2013 amount.
- (11) Decrease from Fiscal Year 2013 amount in Fiscal Year 2014 and thereafter reflects capital improvement project reclassifications and writeoffs returning to historical levels. See Footnote 13 to Table 31 under the caption “—Historic Operating Results and Debt Service Coverage” for a discussion of the increase in capital improvement project writeoffs in accordance with GASB 51 in Fiscal Year 2012.
- (12) Pro rata share of *ad valorem* assessments based on outstanding par amount of all *Ad Valorem* Assessment Bonds. Assessment Proceeds are only available to pay debt service on Series 2010B Bonds, Series 2011A-1 Bonds and Series 2011A-2 Bonds and not other Parity Obligations which are not general obligation bonds secured by *ad valorem* assessments.
- (13) Projected at SIFMA rates increasing from 0.15% in Fiscal Year 2014 to 1.75% in Fiscal Year 2018. Assumes that the purchase price of Series 2011A-1 Bonds and Series 2011A-2 Bonds is paid from remarketing proceeds.
- (14) Debt Service net of BAB Credit on Series 2010B Bonds. Reflects announced reductions in BAB Credits. See the caption “—Effect of Federal Sequester.”
- (15) Reflects scheduled Debt Service.
- (16) Total Net Revenues and Assessment Proceeds divided by Total Parity Debt Service.
- (17) Net swap payments. Assumes 5-year average of LIBOR rate with respect to swaps 0.97%, increasing from 0.25% in Fiscal Year 2014 to 1.90% in Fiscal Year 2018. See the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Subordinate Debt—Interest Rate Swap Transactions.”
- (18) Represents District’s share of 1% Property Tax Revenues which, together with the applicable *ad valorem* assessments, is sufficient to pay debt service on the Secured Bonds.
- (19) Pro rata share of *ad valorem* assessments based on outstanding par amount of all *ad valorem* assessment bonds and Series 2010B Bonds, Series 2011A-1 Bonds and Series 2011A-2 Bonds.
- (20) *Ad Valorem* Assessment Bonds debt projection assumes annual sinking fund payments, SIFMA rates ranging from 0.15% in Fiscal Year 2014 to 1.75% in Fiscal Year 2018 and letter of credit fees equal to 0.35% of principal. Does not include Series 2010B Bonds, Series 2011A-1 Bonds or Series 2011A-2 Bonds, which are Parity Obligations. Assumes a total of \$75 million of new variable rate *ad valorem* assessment bonds issued in 2015, 2016 and 2018.

Source: The District.

THE IMPROVEMENT DISTRICTS

General

The District contains seven water Improvement Districts and ten sewer Improvement Districts covering specific areas within the District’s boundaries, some of them overlapping and each of which is governed by the Act. The District formed the Improvement Districts in order to allocate funding responsibility for capital facilities to the area which will benefit from such capital facilities and to separate areas on the basis of projected timing of development so that capital facilities construction can be matched to the development approval decisions of the respective local agency that makes them. Some of the Improvement Districts share in the funding of the District’s regional facilities which the Improvement Districts will use in common, such as major water importation facilities or sewer treatment plants.

Each Improvement District has a respective plan of works and a certain amount of authorized general obligation bonded indebtedness. See Table 3 under the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Improvement District Indebtedness.” The *Ad Valorem* Assessment

Bonds issued pursuant to such authorization are sold in each instance by the District on the respective Improvement District's behalf. The obligation for repayment of bonds issued on behalf of an Improvement District is secured in each instance by the power of the District to levy and collect within such Improvement District *ad valorem* assessments without limitation as to rate or amount on land only (enforceable by customary rights to foreclose and sell property for delinquent assessments) or, in lieu of assessments, in the District's discretion, charges for water or sewer service, as applicable, all within the subject Improvement District. These powers and functions are exercised for each Improvement District by the Board of Directors of the District. Although the respective funding obligations of each Improvement District are separate and independent, the Improvement Districts are not operated as separate or independent governmental entities, nor do they have governing boards or any staff. The Improvement Districts are geographical subdivisions of the District through which the District funds capital improvements.

As a result of the District's discretionary election to use other sources of payment for debt service on *ad valorem* assessment bonds, the annual tax rates set by the District vary from year to year and generally do not result in revenues that correspond with debt service requirements on the *Ad Valorem* Assessment Bonds. The annual tax rates set by the District may vary from year to year for other reasons as well. The District has covenanted under the Indenture that, to the extent necessary to pay debt service on the Series 2011A-1 Bonds, it will impose and collect Bond Assessments and Charges. See the caption "SECURITY FOR THE SERIES 2011A-1 BONDS—General—Covenant to Collect Bond Assessments and Charges" in the forepart of this Remarketing Statement.

The California Water Code allows the Board of Directors, in a noticed hearing process, to reorganize its improvement district boundaries and to consolidate coterminous improvement districts. As development progresses to completion in improvement districts and the need for having separate improvement districts to match capital facilities construction timing for different geographic areas diminishes, consolidation of various improvement districts can produce efficiencies for the District. Under the California Water Code provisions, certain improvement districts of the District are the consolidated successors to previously separate water improvement districts or previously separate sewer improvement districts, respectively. In 2013, following studies carried out by the District to identify further opportunities to implement such consolidations and reorganizations of its improvement districts, the District implemented improvement district consolidation that reduced the number of its improvement districts from 33 to 17. The statutory provisions for the consolidation of improvement districts specify that a consolidated improvement district may levy and collect the assessments and charges necessary to satisfy the obligations of its predecessor improvement districts, and that the authorized and unissued bonds of the predecessor improvement districts may be issued and sold as the bonds of the consolidated improvement district. The District believes that its actions to reorganize and/or consolidate improvement districts will not impair the District's obligation to pay debt service on the outstanding bonds of such improvement districts or the security therefor. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District Nos. 105 and 250 into Improvement District Nos. 125 and 225, respectively.

The following is a general description of each of the Improvement Districts as to which the Series 2011A-1 Bonds constitute consolidated, several general obligations:

Improvement District Nos. 125 and 225

General. At the time of their initial issuance on April 15, 2011, the Series 2011A-1 Bonds constituted the consolidated, several general obligations of Improvement District Nos. 105, 113, 213 and 250. Improvement District Nos. 125 and 225 are the legal successors to Improvement District Nos. 105 and 250, respectively. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District Nos. 105 and 250 into Improvement District Nos. 125 and 225, respectively.

Improvement District No. 125 (water) covers approximately 35,438 acres of the District, including several contiguous and non-contiguous areas in the central and coastal parts of the District. Improvement District No. 225 (sewer) covers approximately 32,862 acres of the District, including several contiguous and non-contiguous areas in the central part of the District. Currently, the majority of the land within Improvement District Nos. 125 and 225 consists of developed residential property. The District expects certain areas within Improvement District Nos. 125 and 225 to be subject to infill development and redevelopment in the future. The District expects such additional development in Improvement District Nos. 125 and 225 to continue through at least 2020. The estimated Fiscal Year 2014 assessed value of the land in Improvement District No. 125 is \$27,277,417,155, while the Fiscal Year 2014 assessed value of the land in Improvement District No. 105 before its consolidation into Improvement District No. 125 was \$7,099,866,552. The estimated Fiscal Year 2014 assessed value of the land in Improvement District No. 225 is \$22,829,540,910, while the Fiscal Year 2014 assessed value of the land in Improvement District No. 250 before its consolidation into Improvement District No. 225 was \$6,776,400,622.

Set forth below is information with respect to Improvement District Nos. 125 and 225 for Fiscal Year 2014 and their respective predecessor Improvement Districts for prior Fiscal Years.

The *ad valorem* assessments levied by the District in Improvement District Nos. 125 and 225 to pay such Improvement Districts' respective Included Amounts of debt service on the Series 2011A-1 Bonds will be levied on land only. See Table 3 under the caption "THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Improvement District Indebtedness" for a description of the authorized, issued, authorized and unissued, and the amount of outstanding Improvement District Nos. 125 and 225 Ad Valorem Assessment Bonds.

The following table presents the assessed valuations of land in Improvement District No. 105 for the Fiscal Years ended June 30, 2010 through June 30, 2013 and the assessed valuations of land in Improvement District No. 125 for the Fiscal Year ending June 30, 2014. Assessed valuations of land in Improvement District No. 125 are not available for Fiscal Years prior to Fiscal Year 2014 because Improvement District No. 125 did not exist prior to November 11, 2013.

TABLE 33
IRVINE RANCH WATER DISTRICT
Improvement District No. 105/125
Assessed Valuations (Land Only)

| <i>Fiscal Year</i> | <i>Local Secured</i> | <i>Unsecured</i> ⁽¹⁾ | <i>Total</i> |
|---------------------|----------------------|---------------------------------|------------------|
| 2010 ⁽²⁾ | \$ 5,533,347,096 | \$ 7,969,190 | \$ 5,541,316,286 |
| 2011 ⁽²⁾ | 5,753,773,845 | 26,979,470 | 5,780,753,315 |
| 2012 ⁽²⁾ | 6,309,579,342 | 6,491,171 | 6,316,070,513 |
| 2013 ⁽²⁾ | 6,602,927,949 | 5,728,927 | 6,608,656,876 |
| 2014 ⁽³⁾ | 27,277,013,090 | 404,065 ⁽⁴⁾ | 27,277,417,155 |

⁽¹⁾ Assessed value of unsecured land only, reflecting possessory interests in tax exempt utility property and gas and oil leases.

⁽²⁾ Reflects assessed valuations for Improvement District No. 105. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District No. 105 into Improvement District No. 125.

⁽³⁾ Reflects assessed valuations for Improvement District No. 125. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District No. 105 into Improvement District No. 125.

⁽⁴⁾ Certain secured values that were omitted from the secured tax roll and allocated to the unsecured tax roll by the County Assessor in Fiscal Year 2014 have been omitted from the table.

Source: California Municipal Statistics, Inc.

The following table presents the assessed valuations of land in Improvement District No. 250 for the Fiscal Years ended June 30, 2010 through June 30, 2013 and the assessed valuations of land in Improvement District No. 225 for the Fiscal Year ending June 30, 2014. Assessed valuations of land in Improvement District No. 225 are not available for Fiscal Years prior to Fiscal Year 2014 because Improvement District No. 225 did not exist prior to November 11, 2013.

TABLE 34
IRVINE RANCH WATER DISTRICT
Improvement District No. 250/225
Assessed Valuations (Land Only)

| <i>Fiscal Year</i> | <i>Local Secured</i> | <i>Unsecured</i> ⁽¹⁾ | <i>Total</i> |
|---------------------|----------------------|---------------------------------|------------------|
| 2010 ⁽²⁾ | \$ 5,221,867,776 | \$ 7,863,830 | \$ 5,229,731,606 |
| 2011 ⁽²⁾ | 5,432,737,954 | 26,636,942 | 5,459,374,896 |
| 2012 ⁽²⁾ | 5,997,217,214 | 6,210,415 | 6,003,427,629 |
| 2013 ⁽²⁾ | 6,288,670,201 | 5,529,610 | 6,294,199,811 |
| 2014 ⁽³⁾ | 22,829,136,845 | 404,065 ⁽⁴⁾ | 22,829,540,910 |

⁽¹⁾ Assessed value of unsecured land only, reflecting possessory interests in tax exempt utility property and gas and oil leases.
⁽²⁾ Reflects assessed valuations for Improvement District No. 250. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District No. 250 into Improvement District No. 225.
⁽³⁾ Reflects assessed valuations for Improvement District No. 225. See the Official Statement under the caption "INTRODUCTION—Improvement Districts—Improvement District Nos. 125 and 225" for a discussion of the consolidation of Improvement District No. 250 into Improvement District No. 225.
⁽⁴⁾ Certain secured values that were omitted from the secured tax roll and allocated to the unsecured tax roll by the County Assessor in Fiscal Year 2014 have been omitted from the table.

Source: California Municipal Statistics, Inc.

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The following table sets forth information with respect to land only local secured assessed valuation in Improvement District No. 125 (excluding tax exempt utility property and gas and oil leases) by land use for the Fiscal Year ending June 30, 2014:

TABLE 35
IRVINE RANCH WATER DISTRICT
Improvement District No. 125
Assessed Valuation and Parcels by Land Use

| | <i>Fiscal Year 2014 Assessed Valuation⁽¹⁾</i> | <i>% of Total</i> | <i>No. of Parcels⁽²⁾</i> | <i>% of Total</i> |
|---------------------------------|--|-------------------|---|-------------------|
| Non-Residential: | | | | |
| Commercial | \$ 2,682,287,127 | 9.83% | 1,434 | 1.39% |
| Industrial | 1,483,529,535 | 5.44 | 1,129 | 1.09 |
| Miscellaneous | <u>43,543,864</u> | <u>0.16</u> | <u>200</u> | <u>0.19</u> |
| Subtotal Non-Residential | \$ 4,209,360,526 | 15.43% | 2,763 | 2.68% |
| Residential: | | | | |
| Single Family Residence | \$15,654,267,400 | 57.39% | 34,104 | 33.08% |
| Condominium/Townhouse | 6,388,624,169 | 23.42 | 27,854 | 27.01 |
| Timeshare Parcels | 271,023,274 | 0.99 | 37,848 | 36.71 |
| 2+ Residential Units/Apartments | 517,791,020 | 1.90 | 221 | 0.21 |
| Vacant Residential | <u>235,946,701</u> | <u>0.87</u> | <u>321</u> | <u>0.31</u> |
| Subtotal Residential | \$23,067,652,564 | 84.57% | 100,348 | 97.32% |
| Total | <u>\$27,277,013,090</u> | <u>100.00%</u> | <u>103,111</u> | <u>100.00%</u> |

⁽¹⁾ Land Only Local Secured Assessed Valuation; excludes tax exempt utility property and gas and oil leases.

⁽²⁾ Excludes parcels with no taxable value.

Source: California Municipal Statistics, Inc.

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The following table sets forth information with respect to land only local secured assessed valuation in Improvement District No. 225 (excluding tax exempt utility property and gas and oil leases) by land use for the Fiscal Year ending June 30, 2014:

TABLE 36
IRVINE RANCH WATER DISTRICT
Improvement District No. 225
Assessed Valuation and Parcels by Land Use

| | <i>Fiscal Year 2014 Assessed Valuation</i> ⁽¹⁾ | <i>% of Total</i> | <i>No. of Parcels</i> ⁽²⁾ | <i>% of Total</i> |
|---------------------------------|---|-------------------|--|-------------------|
| Non-Residential: | | | | |
| Commercial | \$ 2,617,977,352 | 11.47% | 1,393 | 2.14% |
| Industrial | 1,472,347,285 | 6.45 | 1,108 | 1.70 |
| Miscellaneous | <u>43,104,768</u> | <u>0.19</u> | <u>201</u> | <u>0.31</u> |
| Subtotal Non-Residential | \$ 4,133,429,405 | 18.11% | 2,702 | 4.15% |
| Residential: | | | | |
| Single Family Residence | \$11,814,467,880 | 51.75% | 33,631 | 51.71% |
| Condominium/Townhouse | 6,109,562,036 | 26.76 | 28,173 | 43.32 |
| 2+ Residential Units/Apartments | 555,710,984 | 2.43 | 228 | 0.35 |
| Vacant Residential | <u>215,966,540</u> | <u>0.95</u> | <u>303</u> | <u>0.47</u> |
| Subtotal Residential | \$18,695,707,440 | 81.89% | 62,335 | 95.85% |
| Total | <u>\$22,829,136,845</u> | <u>100.00%</u> | <u>65,037</u> | <u>100.00%</u> |

⁽¹⁾ Land Only Local Secured Assessed Valuation; excludes tax exempt utility property and gas and oil leases.

⁽²⁾ Excludes parcels with no taxable value.

Source: California Municipal Statistics, Inc.

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Principal Taxpayers. The following table lists the major taxpayers in Improvement District No. 125 based on land only local secured assessed valuations for the Fiscal Year ending June 30, 2014:

TABLE 37
IRVINE RANCH WATER DISTRICT
Improvement District No. 125
Largest Local Secured Taxpayers

| | <i>Property Owner</i> | <i>Primary Land Use</i> | <i>Fiscal Year 2014 Assessed Valuation</i> | <i>% of Total⁽¹⁾</i> |
|-----|-----------------------------------|----------------------------|--|---------------------------------|
| 1. | The Irvine Company | Residential and Commercial | \$1,035,308,219 | 3.80% |
| 2. | Heritage Fields El Toro LLC | Residential and Commercial | 162,652,426 | 0.60 |
| 3. | Shea/Baker Ranch Associates LLC | Residential | 66,355,164 | 0.24 |
| 4. | Irvine Apartment Communities LP | Apartments | 57,369,989 | 0.21 |
| 5. | American Stores Company LLC | Commercial | 51,316,798 | 0.19 |
| 6. | Walton CWCA Spectrum 56 LLC | Industrial | 40,255,933 | 0.15 |
| 7. | PPC Irvine Center Investment LLC | Commercial | 32,772,600 | 0.12 |
| 8. | Kia Motors America Inc. | Commercial | 32,709,294 | 0.12 |
| 9. | Northwestern Mutual Life Ins. Co. | Industrial | 30,353,837 | 0.11 |
| 10. | 100 Bayview LLC | Commercial | <u>29,350,560</u> | <u>0.11</u> |
| | TOTAL | | <u>\$1,538,444,820</u> | <u>5.64%</u> |

⁽¹⁾ Fiscal Year 2014 Local Secured Assessed Valuation (Land Only): \$27,277,013,090.
Source: California Municipal Statistics, Inc.

The following table lists the major taxpayers in Improvement District No. 225 based on land only local secured assessed valuations for the Fiscal Year ending June 30, 2014:

TABLE 38
IRVINE RANCH WATER DISTRICT
Improvement District No. 225
Largest Local Secured Taxpayers

| | <i>Property Owner</i> | <i>Primary Land Use</i> | <i>Fiscal Year 2014 Assessed Valuation</i> | <i>% of Total⁽¹⁾</i> |
|-----|-----------------------------------|----------------------------|--|---------------------------------|
| 1. | The Irvine Company | Residential and Commercial | \$ 960,383,821 | 4.21% |
| 2. | Heritage Fields El Toro LLC | Residential and Commercial | 162,652,426 | 0.71 |
| 3. | Irvine Apartment Communities LP | Apartments | 78,907,131 | 0.35 |
| 4. | Shea/Baker Ranch Associates LLC | Residential | 66,355,164 | 0.29 |
| 5. | American Stores Company LLC | Commercial | 51,316,798 | 0.22 |
| 6. | Walton CWCA Spectrum 56 LLC | Industrial | 40,255,933 | 0.18 |
| 7. | PPC Irvine Center Investment LLC | Commercial | 32,772,600 | 0.14 |
| 8. | Kia Motors America Inc. | Commercial | 32,709,294 | 0.14 |
| 9. | Northwestern Mutual Life Ins. Co. | Industrial | 30,353,837 | 0.13 |
| 10. | 100 Bayview LLC | Commercial | <u>29,350,560</u> | <u>0.13</u> |
| | TOTAL | | <u>\$1,485,057,564</u> | <u>6.51%</u> |

⁽¹⁾ Fiscal Year 2014 Local Secured Assessed Valuation (Land Only): \$22,829,136,845.
Source: California Municipal Statistics, Inc.

Statement of Direct and Overlapping Debt. Set forth in the table below is a direct and overlapping debt report (the “Debt Reports–I.D. 125/225”) for Improvement District Nos. 125 and 225, respectively, prepared by California Municipal Statistics, Inc. and effective December 31, 2013. The Debt Reports–I.D.

125/225 were prepared by California Municipal Statistics, Inc., and the District expresses no opinion on the completeness or accuracy of such reports and makes no representation in connection therewith.

California Municipal Statistics, Inc. reports that the Debt Reports–I.D. 125/225 generally include long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District No. 125 and No. 225 in whole or in part. Such long-term obligations generally are not payable from revenues of the District or Improvement District No. 125 and No. 225 (except as indicated) nor are they necessarily obligations secured by land within Improvement District No. 125 and No. 225. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

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TABLE 39
IRVINE RANCH WATER DISTRICT
Improvement District No. 125
Direct and Overlapping Debt Statement

Fiscal Year 2014 Land Only Assessed Valuation: \$27,277,417,155

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable⁽¹⁾</u> | <u>Debt 12/31/13</u> |
|--|-----------------------------------|--------------------------------------|
| Metropolitan Water District | 2.499% | \$ 4,125,474 |
| Coast Community College District | 5.248 | 33,189,071 |
| Rancho Santiago Community College District | 1.039 | 2,965,620 |
| Laguna Beach Unified School District | 15.202 | 4,328,009 |
| Newport Mesa Unified School District | 14.581 | 34,535,704 |
| Saddleback Valley Unified School District | 33.886 | 42,981,002 |
| Tustin Unified School District School Facilities Improvement District No. 2002-1 | 4.236 | 2,332,417 |
| Tustin Unified School District School Facilities Improvement District No. 2008-1 | 4.346 | 3,134,987 |
| Tustin Unified School District School Facilities Improvement District No. 2012-1 | 35.643 | 12,475,050 |
| Irvine Ranch Water District Improvement District No. 125 | 100.000 | 195,652,000⁽²⁾ |
| Irvine Ranch Water District Improvement District No. 225 | 97.791 | 239,552,240 |
| Irvine Ranch Water District Improvement District No. 112/212 | 12.188 | 2,532,666 |
| Irvine Ranch Water District Improvement District No. 240 | 100.000 | 26,292,000 |
| Community Facilities Districts | 0.737-100.000 | 692,946,044 |
| County 1915 Act Bonds | 100.000 | 83,818,296 |
| City 1915 Act Bonds | Various | <u>721,463,022</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$2,102,323,602 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Orange County General Fund Obligations | 12.341% | \$ 20,999,569 |
| Orange County Pension Obligations | 12.341 | 27,218,728 |
| Orange County Board of Education Certificates of Participation | 12.341 | 1,946,176 |
| Orange Unified School District Certificates of Participation and Benefit Obligations | 2.177 | 2,670,038 |
| City of Lake Forest Certificates of Participation | 83.177 | 8,575,549 |
| City of Newport Beach Certificates of Participation | 23.686 | 28,294,111 |
| Municipal Water District of Orange County Water Facilities Corporation | 14.787 | <u>1,149,689</u> |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | \$ 90,853,860 |
| Less: MWDOC Water Facilities Corporation (100% supported) | | <u>1,149,689</u> |
| TOTAL NET OVERLAPPING GENERAL FUND DEBT | | \$ 89,704,171 |
| OVERLAPPING TAX INCREMENT DEBT (Successor Agencies) | | \$ 9,001,684 |
| GROSS COMBINED TOTAL DEBT | | \$2,202,179,146⁽³⁾ |
| NET COMBINED TOTAL DEBT | | \$2,201,029,457 |

Ratios to Fiscal Year 2014 Land Only Assessed Valuation:

Direct Debt (\$195,652,000)0.72%
Total Direct and Overlapping Tax and Assessment Debt.....7.71%

Ratios to Adjusted All Property Assessed Valuation:

Gross Combined Total Debt.....4.03%
Net Combined Total Debt4.03%

⁽¹⁾ Based on all property assessed valuation of \$54,600,862,069.

⁽²⁾ Excludes issues to be sold. Improvement District No. 125 was formed by consolidating former Improvement District Nos. 105, 106, 120, 121, 130, 135, 140, 161, 182, 184 and 186.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

TABLE 40
IRVINE RANCH WATER DISTRICT
Improvement District No. 225
Direct and Overlapping Debt Statement

Fiscal Year 2014 Land Only Assessed Valuation: \$22,829,540,910

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable⁽¹⁾</u> | <u>Debt 12/31/13</u> |
|--|-----------------------------------|--------------------------------------|
| Metropolitan Water District | 2.166% | \$ 3,575,741 |
| Coast Community College District | 0.328 | 2,074,317 |
| Rancho Santiago Community College District | 0.028 | 79,920 |
| Laguna Beach Unified School District | 0.012 | 3,416 |
| Newport Mesa Unified School District | 3.300 | 7,816,187 |
| Saddleback Valley Unified School District | 33.886 | 42,981,002 |
| Tustin Unified School District School Facilities Improvement District No. 2002-1 | 6.000 | 3,303,707 |
| Tustin Unified School District School Facilities Improvement District No. 2008-1 | 6.155 | 4,439,909 |
| Tustin Unified School District School Facilities Improvement District No. 2012-1 | 36.840 | 12,894,000 |
| Irvine Ranch Water District Improvement District No. 125 | 91.796 | 179,601,443 |
| Irvine Ranch Water District Improvement District No. 225 | 100.000 | 244,963,000⁽²⁾ |
| Irvine Ranch Water District Improvement District No. 112/212 | 12.188 | 2,532,666 |
| Irvine Ranch Water District Improvement District No. 240 | 0.022 | 5,784 |
| Community Facilities Districts | 0.737-100.000 | 676,408,588 |
| County 1915 Act Bonds | 100.000 | 1,174,582 |
| City 1915 Act Bonds | Various | <u>721,463,022</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$1,903,317,284 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Orange County General Fund Obligations | 10.695% | \$ 18,198,719 |
| Orange County Pension Obligations | 10.695 | 23,588,388 |
| Orange County Board of Education Certificates of Participation | 10.695 | 1,686,602 |
| Orange Unified School District Certificates of Participation and Benefit Obligations | 0.058 | 71,136 |
| City of Lake Forest Certificates of Participation | 83.177 | 8,575,549 |
| City of Newport Beach Certificates of Participation | 4.117 | 4,917,962 |
| Municipal Water District of Orange County Water Facilities Corporation | 12.815 | <u>996,366</u> |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | \$ 58,034,722 |
| Less: MWDOC Water Facilities Corporation (100% supported) | | <u>996,366</u> |
| TOTAL NET OVERLAPPING GENERAL FUND DEBT | | \$ 57,038,356 |
| OVERLAPPING TAX INCREMENT DEBT (Successor Agencies) | | \$ 9,001,684 |
| GROSS COMBINED TOTAL DEBT | | \$1,970,353,690⁽³⁾ |
| NET COMBINED TOTAL DEBT | | \$1,969,357,324 |

Ratios to Fiscal Year 2014 Land Only Assessed Valuation:

Direct Debt (\$244,963,000)1.07%
Total Direct and Overlapping Tax and Assessment Debt.....8.34%

Ratios to Adjusted All Property Assessed Valuation:

Gross Combined Total Debt.....4.16%
Net Combined Total Debt4.16%

⁽¹⁾ Based on all property assessed valuation of \$47,318,974,402.

⁽²⁾ Excludes issues to be sold. Improvement District No. 125 was formed by consolidating former Improvement District Nos. 105, 106, 120, 121, 130, 135, 140, 161, 182, 184 and 186. Improvement District No. 225 was formed by consolidating former Improvement District Nos. 2(202), 206, 221, 230, 235, 250, 261, 282, 284 and 286.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Improvement District Nos. 113 and 213

General. Improvement District No. 113 (water) and Improvement District No. 213 (sewer) are coterminous and are located in portions of the Cities of Tustin and Irvine, California. Improvement District No. 113 and Improvement District No. 213 are comprised of approximately 1,629 acres of the land formerly known as Marine Corps Air Station Tustin. The boundaries of Improvement District No. 113 and Improvement District No. 213 are Harvard Avenue on the southeast, Barranca Parkway on the southwest, Red Hill Avenue on the northwest and Edinger Avenue on the northeast. The former helicopter base, now known as Tustin Legacy, is currently being redeveloped with residential, commercial, institutional and recreational uses. The District expects development in Improvement District No. 113 and Improvement District No. 213 to continue through at least approximately 2020. The District expects that future development will consist of approximately 4,800 dwelling units and approximately 12,100,000 square feet of commercial, institutional and recreational uses.

Set forth below is information with respect to Improvement District No. 113 and Improvement District No. 213.

The *ad valorem* assessments levied by the District in Improvement District Nos. 113 and 213 to pay such Improvement Districts’ respective Included Amounts of debt service on the Series 2011A-1 Bonds will be levied on land only. See Table 3 under the caption “THE IRVINE RANCH WATER DISTRICT—Outstanding Indebtedness—Improvement District Indebtedness” for a description of the authorized, issued, authorized and unissued, and the amount of outstanding Improvement District Nos. 113 and 213 Ad Valorem Assessment Bonds.

The following table presents the assessed valuations of land in Improvement District No. 113 and Improvement District No. 213 for the Fiscal Years ended June 30, 2010 through June 30, 2014.

TABLE 41
IRVINE RANCH WATER DISTRICT
Improvement District No. 113/213
Assessed Valuations (Land Only)

| <i>Fiscal Year</i> | <i>Local Secured</i> | <i>Unsecured</i> ⁽¹⁾ | <i>Total</i> |
|--------------------|----------------------|---------------------------------|---------------|
| 2010 | \$606,287,728 | \$2,868,776 | \$609,156,504 |
| 2011 | 651,328,825 | 588,355 | 651,917,180 |
| 2012 | 552,924,477 | 533,680 | 553,458,157 |
| 2013 | 535,648,801 | 720,289 | 536,369,090 |
| 2014 | 561,601,211 | 637,882 | 562,239,093 |

⁽¹⁾ Assessed value of unsecured land only, reflecting possessory interests in tax exempt utility property and gas and oil leases.
 Source: California Municipal Statistics, Inc.

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The following table sets forth information with respect to land only local secured assessed valuation in Improvement District No. 113 and Improvement District No. 213 (excluding tax exempt utility property and gas and oil leases) by land use for the Fiscal Year ending June 30, 2014:

TABLE 42
IRVINE RANCH WATER DISTRICT
Improvement District No. 113/213
Assessed Valuation and Parcels by Land Use

| | <i>Fiscal Year 2014 Assessed Valuation</i> ⁽¹⁾ | <i>% of Total</i> | <i>No. of Parcels</i> | <i>% of Total</i> |
|--------------------------|---|-----------------------|---------------------------|-----------------------|
| Non-Residential: | | | | |
| Commercial | \$ 96,157,563 | 17.12% | 20 | 0.82% |
| Subtotal Non-Residential | \$ 96,157,563 | 17.12% | 20 | 0.82% |
| Residential: | | | | |
| Single Family Residence | \$ 243,941,236 | 43.44% | 1,191 | 48.83% |
| Condominium/Townhouse | 221,475,430 | 39.44 | 1,222 | 50.10 |
| Vacant Residential | <u>26,982</u> | <u>0.00</u> | <u>6</u> | <u>0.25</u> |
| Subtotal Residential | \$ 465,443,648 | 82.88% | 2,419 | 99.17% |
| Total | <u>\$ 561,601,211</u> | <u>100.00%</u> | <u>2,439</u> | <u>100.00%</u> |

⁽¹⁾ Land Only Local Secured Assessed Valuation; excludes tax exempt utility property and gas and oil leases.
Source: California Municipal Statistics, Inc.

The following table lists the major taxpayers in Improvement District No. 113 and Improvement District No. 213 based on land only local secured assessed valuations for the Fiscal Year ending June 30, 2014:

TABLE 43
IRVINE RANCH WATER DISTRICT
Improvement District No. 113/213
Largest Local Secured Taxpayers

| | <i>Property Owner</i> | <i>Primary Land Use</i> | <i>Fiscal Year 2014 Assessed Valuation</i> | <i>% of Total</i> ⁽¹⁾ |
|-----|------------------------------|-------------------------|--|--------------------------------------|
| 1. | Vestar/Kimco Tustin LP | Commercial | \$ 73,200,952 | 13.03% |
| 2. | Costco Wholesale Corporation | Commercial | 14,450,901 | 2.57 |
| 3. | Lowes HIW Inc. | Commercial | 10,720,185 | 1.91 |
| 4. | Ora Astoria 60 LLC | Residential | 2,677,034 | 0.48 |
| 5. | Banh D. and Esther Hy | Residential | 715,785 | 0.13 |
| 6. | Howard H. Wu | Residential | 577,966 | 0.10 |
| 7. | Ruidong Wang | Residential | 534,764 | 0.10 |
| 8. | Tejinder Singh | Residential | 520,357 | 0.09 |
| 9. | Paul Kuykendall | Residential | 519,220 | 0.09 |
| 10. | Safaei Amir | Residential | 499,296 | 0.09 |
| | TOTAL | | <u>\$ 104,416,460</u> | <u>18.59%</u> |

⁽¹⁾ Fiscal Year 2014 Local Secured Assessed Valuation (Land Only): \$561,601,211.
Source: California Municipal Statistics, Inc.

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Statement of Direct and Overlapping Debt. Set forth the table below is a direct and overlapping debt report (the “Debt Report–I.D. 113/213”) for Improvement District No. 113 and Improvement District No. 213 prepared by California Municipal Statistics, Inc. and effective December 1, 2013. The Debt Report–I.D. 113/213 was prepared by California Municipal Statistics, Inc., and the District expresses no opinion on the completeness or accuracy of such reports and makes no representation in connection therewith.

California Municipal Statistics, Inc. reports that the Debt Report–I.D. 113/213 generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District No. 113 and Improvement District No. 213 in whole or in part. Such long-term obligations generally are not payable from revenues of the District or Improvement District No. 113 and Improvement District No. 213 (except as indicated) nor are they necessarily obligations secured by land within Improvement District No. 113 and Improvement District No. 213. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

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TABLE 44
IRVINE RANCH WATER DISTRICT
Improvement District No. 113/213
Direct and Overlapping Debt Statement

Fiscal Year 2014 Land Only Assessed Valuation: \$562,239,093

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> ⁽¹⁾ | <u>Debt 12/1/13</u> |
|--|------------------------------------|-------------------------------------|
| Metropolitan Water District | 0.064% | \$ 105,654 |
| Santa Ana Unified School District | 0.001 | 1,448 |
| Tustin Unified School District School Facilities Improvement District No. 2002-1 | 5.072 | 2,792,734 |
| Tustin Unified School District School Facilities Improvement District No. 2008-1 | 1.877 | 1,353,974 |
| Tustin Unified School District School Facilities Improvement District No. 2012-1 | 1.296 | 453,600 |
| Tustin Unified School District Community Facilities District No. 06-1 | 100.000 | 13,515,000 |
| City of Irvine Community Facilities District No. 2005-2 | 99.263 | 16,975,000 |
| Irvine Ranch Water District Improvement District No. 113 | 100.000 | 14,150,000 ⁽²⁾ |
| Irvine Ranch Water District Improvement District No. 213 | 100.000 | 22,074,000 ⁽²⁾ |
| City of Tustin Community Facilities District Nos. 04-1, 06-1 and 07-1 | 60.350-100.000 | <u>73,462,725</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$144,884,135 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Orange County General Fund Obligations | 0.316% | \$ 537,709 |
| Orange County Pension Obligations | 0.316 | 696,955 |
| Orange County Board of Education Certificates of Participation | 0.316 | 49,833 |
| Santa Ana Unified School District Certificates of Participation | 0.001 | 388 |
| Municipal Water District of Orange County Water Facilities Corporation | 0.378 | <u>29,390</u> |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | \$ 1,314,275 |
| Less: MWDOC Water Facilities Corporation (100% supported) | | <u>29,390</u> |
| TOTAL NET OVERLAPPING GENERAL FUND DEBT | | \$ 1,284,885 |
| <u>OVERLAPPING TAX INCREMENT DEBT</u> | | |
| Tustin Redevelopment Agency Housing Bonds | 46.251% | \$10,531,353 |
| Tustin Redevelopment Agency Marine Corps Air Station Project | 89.107 | <u>37,331,378</u> |
| TOTAL OVERLAPPING TAX INCREMENT DEBT | | \$48,826,678 |
| GROSS COMBINED TOTAL DEBT | | \$194,061,141 ⁽³⁾ |
| NET COMBINED TOTAL DEBT | | \$194,031,751 |

Ratios to Fiscal Year 2014 Land Only Assessed Valuation:

Direct Debt (\$36,224,000).....6.44%
Total Direct and Overlapping Tax and Assessment Debt.....25.77%

Ratios to Adjusted All Property Assessed Valuation:

Gross Combined Total Debt 13.90%
Net Combined Total Debt..... 13.90%

Ratios to Redevelopment Incremental Valuation (\$176,624,529):

Overlapping Tax Increment Debt 27.10%

⁽¹⁾ Based on all property assessed valuation of \$1,396,385,909.

⁽²⁾ Excludes issues to be sold.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Proposition 218

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

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

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it.

In July 2006, the California Supreme Court held, in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (“*Bighorn*”), that the initiative power described in Article XIII C applies to any local taxes, assessments, fees and charges as defined in Articles XIII C and XIII D. Article XIII D defines “fee” or “charge” to mean a levy (other than *ad valorem* or special taxes or assessments) imposed by a local government “upon a parcel or upon a person as an incident of property ownership,” including a user fee for a “property related service.” The Court also found that charges for water delivery are charges for a property-related service and, therefore, constitute “fees” or “charges” within the meaning of both Article XIII D and section 3 of Article XIII C. In light of the decision in *Bighorn*, the District determined that it would conduct notice and hearing proceedings to comply with requirements of Article XIII D with respect to proposed increases of rates and charges and commenced doing so beginning in Fiscal Year 2007.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” In light of *Bighorn* and as discussed above under “Article XIII D,” the terms “fee” and “charge” as used in Article XIII C include, at a minimum, all of the fees and charges within the “property related” qualification set forth in Article XIII D. Moreover, the provisions of Article XIII C are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. Therefore, in the absence of other limitations, provisions of Article XIII C could be applicable to the water and sewer rates charged by the District. The District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Series 2011A-1 Bonds. Remedies available to beneficial owners of the Series 2011A-1 Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Proposition 26

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

Article XIII A

General. On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by the voters voting on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon the location of reappraised property and the value of property within each taxing agency. Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIII B

An initiative to amend the California Constitution entitled “Limitation of Government Appropriations” was approved on November 6, 1979 thereby adding Article XIII B to the California Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District is of the opinion that its rates and charges for water, sewer and recycled water services do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B, and that tax revenues and other revenues received by the District which may constitute the “proceeds of taxes” are appropriated for debt service or qualified capital outlay projects and are not subject to the limits of Article XIII B.

Proposition 1A

Proposition 1A, which was approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in fiscal years 2004-05 and 2005-06. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two thirds of both houses and certain other conditions are met. See the caption “THE IRVINE RANCH WATER DISTRICT—1% Property Tax Revenues” above.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218, Proposition 1A and Proposition 26 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 ability of the District to collect or expend Revenues.

APPENDIX B
AUDITED FINANCIAL STATEMENTS

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Board of Directors
Irvine Ranch Water District
Irvine, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Irvine Ranch Water District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Irvine Ranch Water District, as of June 30, 2013, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in note 1 to the financial statements, during the year ended June 30, 2013, the District implemented GASB Statement No. 63. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *combining schedules of net assets*, the *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *combining schedules of net assets* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic

financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *combining schedules of net assets* are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The *introductory section* and the *statistical section* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District internal control over financial reporting and compliance.

Mayer Hoffman Malin P.C.

Irvine, California
December 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Irvine Ranch Water District (District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2013. This section should be read in conjunction with the basic financial statements and notes to the financial statements, which follow this analysis.

Financial Highlights:

- Total assets and deferred outflow of resources exceed total liabilities by \$1,361.2 million (net position), representing \$919.8 million in net investment in capital assets, \$208.0 million restricted for water services and operation and \$233.4 million restricted for sewer services and operation. This is an increase of \$13.2 million or 1 percent over the prior year net position of \$1,348.0 million.
- Total revenues are \$196.1 million, an increase of \$3.1 million or 1.6 percent over the prior year primarily as a result of higher operating revenues associated with higher sales volume due to increased customer demand and a Board approved rate increase, partially offset by lower non-operating revenues.
- Total expenses are \$217.3 million, an increase of \$4.8 million or 2.3 percent over the prior year primarily due to higher operating expenses for water and sewer services, partially offset by lower non-operating expenses.
- Capital contributions are \$34.4 million, an increase of \$8.5 million or 32.9 percent over the prior year due primarily to higher connection fees associated with increased housing activity by developers.
- Total debt was \$1,225.8 million a \$47.3 million decrease or 3.7 percent over the prior year. JPA debt is \$610.6 million of this amount which is supported by \$620.9 million of investment assets. The decrease in overall debt is due primarily to principal payments of \$66.8 million during the year.
- The District funded \$3.6 million in excess of its annual required contribution to the California Public Employees Retirement System (CalPERS) in order to reduce its unfunded pension liability. This is reflected as a net pension asset and is discussed in detail in Note 13 to the Basic Financial Statements.
- The District established and funded \$35 million to the Irvine Ranch Water District Post-Employment Benefits Trust (Benefits Trust). The Benefits Trust was established to "pre-fund" a portion of the CalPERS unfunded liability, providing the District with an alternative to CalPERS that allows for investment by a professional fund management team selected and monitored by the District, with future excess contributions transferred to CalPERS at the District's discretion.

More detailed analysis about the overall District's financial position and operations is provided in the following sections.

Overview of the Financial Statements:

The basic financial statements of the District consist of the financial statements (the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows) and notes to the financial statements. The basic financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

are prepared using the accrual basis of accounting. This report also contains other supplementary information in addition to the basic financial statements.

Statement of Net Position depicts the District's financial position at June 30, the end of the District's fiscal year. The statement of net position shows all financial assets and liabilities of the District. Net position represents the District's residual interest after liabilities are deducted from assets and deferred outflows of resources. Net position is displayed in two components: net investment in capital assets and restricted for water and sewer services.

Statement of Revenues, Expenses and Changes in Net Position provides information on the District's operations and can be used to determine whether the District has recovered all of its costs through operating and non-operating revenues.

Statement of Cash Flows provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

The **Other Information** includes *required supplementary information and supplementary information*. The *supplementary information* immediately following the Notes to the Basic Financial Statements include a combining schedule of net assets for water subfunds and sewer subfunds at the end of the fiscal year.

Financial Analysis of the District:

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A). Increases or decreases in these schedules can be used as performance indicators to assess whether the District's overall financial position has improved or deteriorated. Other external factors such as changes in economic conditions, customer growth, and legislative mandates should also be considered as part of this assessment.

Financial Position Summary:

The Statement of Net Position reflects the District's financial position as of June 30. The statement includes assets, deferred outflow of resources, and liabilities. The net position represents the District's net worth including, but not limited to, capital contributions and investments in capital assets. A condensed summary of the District's total net position at June 30 is set forth below:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 1
Summary of Net Position
(in millions)

| | 2013 | 2012 | Increase/(Decrease) | |
|--|-------------------|-------------------|---------------------|--------------|
| | | | Amount | Percentage |
| Assets | | | | |
| Current and other assets | \$ 983.5 | \$ 357.4 | \$ 626.1 | 175.2% |
| Capital assets, net | 1,506.1 | 1,508.8 | (2.7) | -0.2% |
| Other noncurrent assets | 144.7 | 809.6 | (664.9) | -82.1% |
| Total assets | 2,634.3 | 2,675.8 | (41.5) | -1.6% |
| Deferred Outflow of Resources | | | | |
| Accumulated decrease in fair value of swaps agreements | 37.5 | 53.0 | (15.5) | -29.2% |
| Liabilities | | | | |
| Current and other liabilities | 664.5 | 99.0 | 565.5 | 571.2% |
| Long-term liabilities | 646.1 | 1,281.8 | (635.7) | -49.6% |
| Total liabilities | 1,310.6 | 1,380.8 | (70.2) | -5.1% |
| Net Position | | | | |
| Net investment in capital assets | 919.8 | 943.1 | (23.3) | -2.5% |
| Restricted for water services | 208.0 | 203.4 | 4.6 | 2.3% |
| Restricted for sewer services | 233.4 | 201.5 | 31.9 | 15.8% |
| Total net position | \$ 1,361.2 | \$ 1,348.0 | \$ 13.2 | 1.0% |

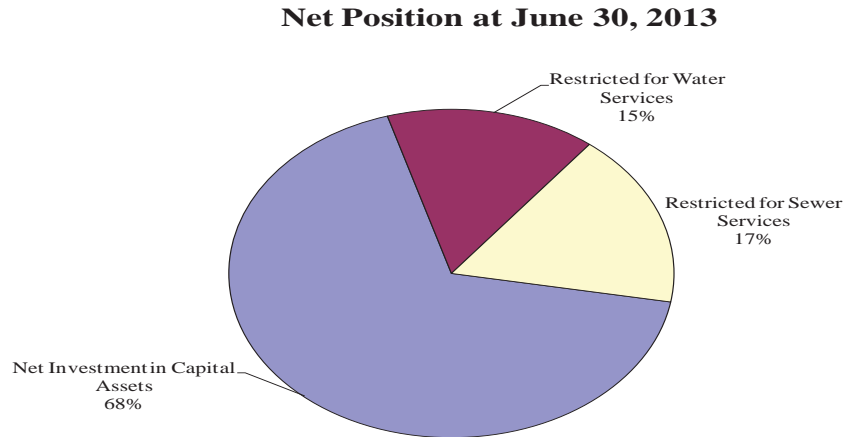
As shown in Table 1, the District's total assets decreased \$41.5 million or 1.6 percent. This is due primarily to a decrease of \$31.0 million in the JPA investment resulting from principal payments and a \$28.0 million reduction in the fair market value of investments. This was partially offset by higher cash from outside federal and state agency grants and a reduction in required collateral for the District's interest rate swaps. In addition, the District has reclassified \$620.9 million in JPA investments from other non-current assets to current and other assets to reflect the investment maturities in February 2014.

The accumulated fair value of swaps decreased from negative \$53.0 million mark to market value to negative \$37.5 million mark to market value during the fiscal year and are reflected in the deferred outflow of resources

The District's total liabilities decreased \$70.2 million or 5.1 percent from \$1,380.8 million in the prior fiscal year to \$1,310.6 million in the current fiscal year. The principal reason is a reduction in the District's debt due primarily to principal payments of \$66.8 million during the year. In addition, there is a reduction in the interest rate swap liability of \$15.5 million reflecting an increase in the fair value during the year. The District also issued \$257.4 million of new JPA refunding bonds and refunded \$246.8 million of JPA bonds in order to achieve a significantly lower interest rate. There are currently two JPA bond issues outstanding and both bond issues, totaling \$610.6 million are due March 2014, and are reclassified from long term liability to current liability in the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net position at end of the current fiscal year increased from \$1,348.0 million in the prior fiscal year to \$1,361.2 million in the current fiscal year, an increase of 1.0 percent in the District's overall financial condition.



Net position consists of net investment in capital assets and restricted net position. Net investment in capital assets reflects the difference between capital assets, net of accumulated depreciation/amortization and the liabilities attributable to their acquisition, construction, or improvement of those assets. Net investment in capital assets was \$919.8 million or 67.6 percent of total net position, a decrease of \$23.3 million or 2.5 percent from the prior fiscal year. This resulted primarily from the principal payments related to the debt associated with the capital assets. Restricted net position for water services were \$208.0 million or 15.3 percent of total net position. Restricted net position for sewer services were \$233.4 million or 17.1 percent of total net position. Those restricted net positions are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation.

Activities and Changes in Net Position:

The Statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the current fiscal year. A Summary of the District's changes in net position for the fiscal years ended June 30, is included in Table 2 below:

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 2
Revenues, Expenses and Changes in Net Position
(in millions)

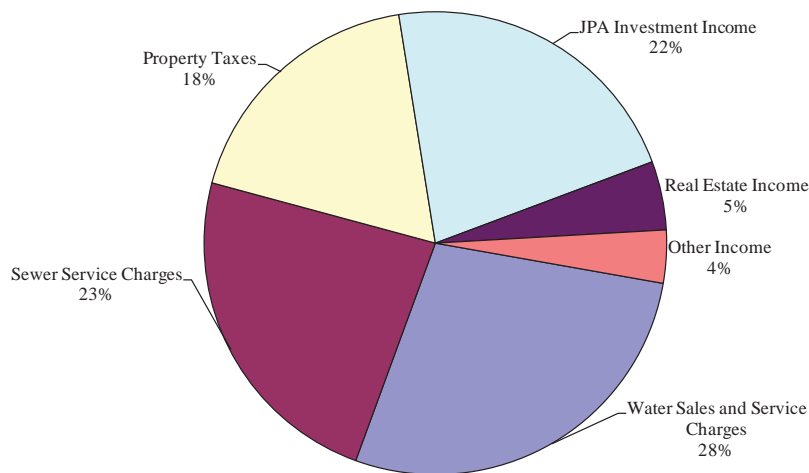
| | 2013 | 2012 | Increase/(Decrease) | |
|--|-------------------|-------------------|---------------------|-------------|
| | | | Amount | Percentage |
| Operating revenues | | | | |
| Water sales and service charges | \$ 62.6 | \$ 57.6 | \$ 5.0 | 8.7% |
| Sewer sales and service charges | 53.1 | 49.2 | 3.9 | 7.9% |
| Total operating revenues | 115.7 | 106.8 | 8.9 | 8.3% |
| Non-operating revenues | | | | |
| Property taxes | 41.1 | 38.0 | 3.1 | 8.2% |
| Investment income | 0.2 | 3.1 | (2.9) | -93.5% |
| Increase (decrease) in fair value of investments | (29.1) | (23.5) | (5.6) | 23.8% |
| JPA investment income | 49.1 | 51.5 | (2.4) | -4.7% |
| Real estate income | 10.8 | 11.0 | (0.2) | -1.8% |
| Other income | 8.3 | 6.1 | 2.2 | 36.1% |
| Total non-operating revenues | 80.4 | 86.2 | (5.8) | -6.7% |
| Total revenues | 196.1 | 193.0 | 3.1 | 1.6% |
| Operating expenses | | | | |
| Water services expenses | 65.8 | 57.2 | 8.6 | 15.0% |
| Sewer services expenses | 46.2 | 40.8 | 5.4 | 13.2% |
| Depreciation | 47.5 | 41.3 | 6.2 | 15.0% |
| Total operating expenses | 159.5 | 139.3 | 20.2 | 14.5% |
| Non-operating expenses | | | | |
| Interest expense | 16.8 | 16.9 | (0.1) | -0.6% |
| JPA interest expense | 28.9 | 39.6 | (10.7) | -27.0% |
| Real estate expense | 6.0 | 6.0 | - | 0.0% |
| Other expense | 6.1 | 10.7 | (4.6) | -43.0% |
| Total non-operating expenses | 57.8 | 73.2 | (15.4) | -21.0% |
| Total expenses | 217.3 | 212.5 | 4.8 | 2.3% |
| Income/(loss) before capital contributions | (21.2) | (19.5) | (1.7) | 8.7% |
| Capital contributions | 34.4 | 25.9 | 8.5 | 32.9% |
| Change in Net Position | 13.2 | 6.4 | 6.8 | 106.4% |
| Beginning Net Position | 1,348.0 | 1,341.6 | 6.4 | 0.5% |
| Ending Net Position | \$ 1,361.2 | \$ 1,348.0 | \$ 13.2 | 1.0% |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues:

As shown in Table 2, the District's operating revenues total \$115.7 million or 59.0 percent of total revenues. Water sales contribute 54.1 percent to total operating revenues and sewer sales contribute 45.9 percent to total operating revenues. Operating revenues increased by \$8.9 million or 8.3 percent from the prior fiscal year. Overall, approximately 50 percent of the revenue increase is attributable to customer growth in the District's service areas due to increased housing activity and a warmer and drier year. The remaining gain in revenue is attributable to a Board approved rate increase. Consumption increased by 5,315 acre-feet or 6.7 percent from 79,829 acre-feet in the prior fiscal year to 85,144 acre-feet in the current fiscal year. The chart below illustrates the sources of revenue for the fiscal year ended June 30, 2013, excluding the change in the fair market value of investments.

**Sources of Revenue for Fiscal Year Ended June 30, 2013
(excluding change in fair market value of investments)**



Net non-operating revenues account for 41.0 percent of total revenue for the fiscal year ended June 30, 2013 and decreased \$5.8 million from the prior year due primarily to the decrease in the fair value of investment assets. Excluding the decrease in the fair value of investments, non-operating revenues account for 30.7 percent of total revenues and consist primarily of property tax revenue allocated to the District from the County, investment income and real estate income generated from the District's real estate investment assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

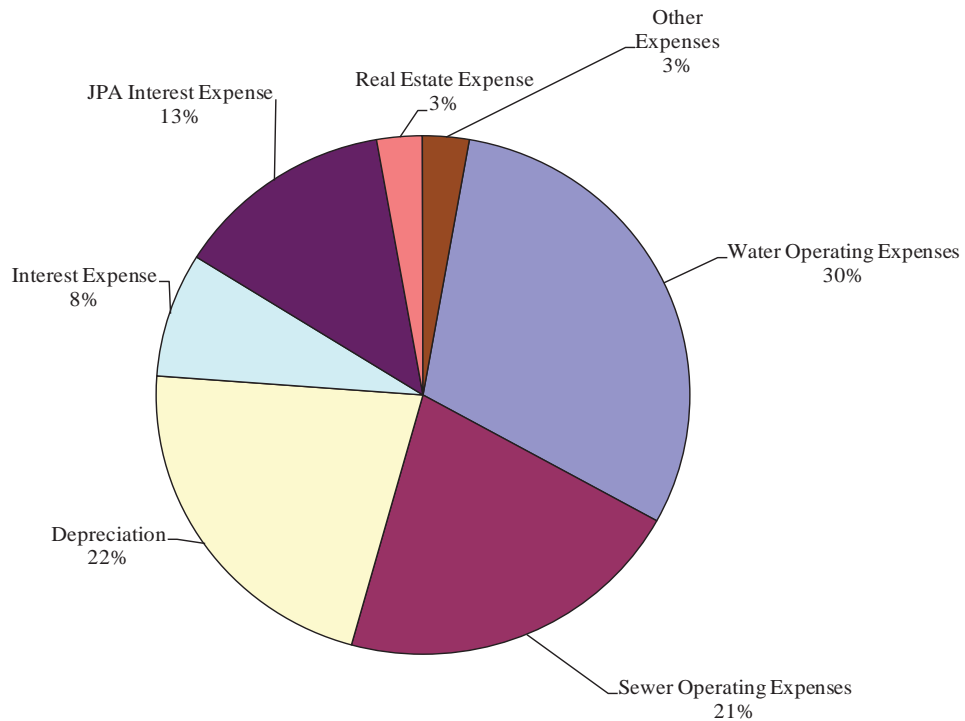
Expenses:

As shown in Table 2, operating expenses total \$159.5 million, of which \$112.0 million relates to cost of service. This represents 96.8 percent of related revenues before depreciation. Operating expenses comprised of water and sewer expenses, excluding depreciation, increased by \$14.0 million or 14.3 percent over the prior year. Water services expense totaled \$65.8 million which is an increase of \$8.6 million or 15.0 percent. This is due primarily to an increase in purchased water of 3,100 acre-feet (\$3.0 million), higher operating expenses associated with increased costs and demand (\$3.0 million) and expense projects related to the District's capital program (\$1.6 million).

Sewer service expenses totaled \$46.2 million, which is an increase of \$5.4 million or 13.2 percent over the prior year. The increase is primarily due to the cost of handling, treatment, and disposal of wastewater solids residuals sent to the Orange County Sanitation District Wastewater System.

Non-operating expenses decreased by \$15.4 million or 21.0 percent primarily due to a decrease of \$10.7 million or 27.0 percent in JPA interest expense. The District refunded JPA bonds Issue#1 and issued new refunding bonds at a significantly lower interest rate. The interest rate decreased 5.3 percent, from 7.7 percent for the 1998 Taxable Refunding Issue to 2.4 percent for the 2012 Taxable Refunding Issue.

Functional Expenses for Fiscal Year Ended June 30, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Contributions:

Capital contributions totaled \$34.4 million, an increase of \$8.5 million or 32.9 percent over the prior year. This is due primarily to an increase in connection fees from developers as a result of higher housing activity. During the current fiscal year, the District added over 3,200 new connections for a total of \$17.3 million of connection fees. The District also received \$9.7 million of donated facilities from developers and \$7.5 million of grants from federal and state agencies during the year.

Capital Assets:

The District's investment in capital assets consisted of the following as of June 30:

Table 3
Capital Assets, Net of Depreciation
(in millions)

| | 2013 | 2012 | Increase/(Decrease) | |
|--------------------------------|-------------------|-------------------|---------------------|--------------|
| | | | Amount | Percentage |
| Waterworks in service | \$ 890.0 | \$ 813.7 | \$ 76.3 | 9.4% |
| Sewer plant in service | 920.7 | 922.0 | (1.3) | -0.1% |
| Less: accumulated depreciation | (597.8) | (551.2) | (46.6) | 8.5% |
| Land and water rights | 85.6 | 66.1 | 19.5 | 29.5% |
| Construction in progress | 207.6 | 258.2 | (50.6) | -19.6% |
| Total | \$ 1,506.1 | \$ 1,508.8 | \$ (2.7) | -0.2% |

Capital assets, net of depreciation decreased \$2.7 million or 0.2% from \$1,508.8 million in the prior fiscal year to \$1,506.1 million in the current fiscal year. The decrease in the net capital assets was primarily due to \$46.6 million of depreciation expense during the year. Several significant projects were completed and started depreciating during the current fiscal year. Total projects transferred from Construction in Progress to Capital Assets and depreciated during the fiscal year ended June 30, 2013 were \$117.7 million. The most significant projects include (in millions):

| Project Description | Amount |
|---|----------------|
| Wells 21 & 22 Wellhead Pipeline and Treatment Plant | \$ 40.5 |
| Supplemental Water Supply and Storage | 15.0 |
| Strand Ranch Facilities and Monitoring Program | 10.0 |
| Newport Blvd 12" WM Replacement | 5.2 |
| Accounting System Implementation | 7.8 |
| Well 107 Replacement and Site Acquisition | 3.4 |
| Stockdale West Facilities | 3.2 |
| Lake Forest Well #2 Replacement Drilling and Wellhead | 2.0 |
| Canyon Area BPD Permanent Generators | 1.7 |
| Strand Ranch Cross Valley Canal Turnouts | 1.2 |
| OPA Final Pressure Package 3 | 1.2 |
| OPA Center Improvements PH1 | 3.4 |
| Columbus Grove Water | 1.1 |
| Water Resources Agreements and Implementation | 1.0 |
| Total | \$ 96.6 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Additional information on the District's capital assets can be found in Note 5 of the Notes to the Basic Financial Statements.

Debt Administration:

As shown below in Table 4, as of June 30, 2013, the District had total debt outstanding of \$1,225.8 million, a decrease of \$47.3 million, or 3.7 percent from the prior fiscal year.

Table 4
Outstanding Debt (including current portions)
(in millions)

| | 2013 | 2012 | Increase/(Decrease) | |
|-------------------------------|-------------------|-------------------|---------------------|--------------|
| | | | Amount | Percentage |
| General obligation bonds | \$ 534.3 | \$ 548.5 | \$ (14.2) | -2.6% |
| Joint Powers Agency bonds | 610.6 | 638.5 | (27.9) | -4.4% |
| Certificates of participation | 78.7 | 83.6 | (4.9) | -5.9% |
| Notes payable | 2.2 | 2.5 | (0.3) | -12.0% |
| Total | <u>\$ 1,225.8</u> | <u>\$ 1,273.1</u> | <u>\$ (47.3)</u> | <u>-3.7%</u> |

The decreases in the District's total debt were primarily due to principal maturities of \$66.8 million during the year. In addition, the District issued \$257.4 million of JPA Taxable Refunding Bonds Issue #1 and refunded \$246.8 million of the 1998 Joint Powers Agency Taxable Refunding Bonds Issue #1. The refunding of the Joint Powers Agency Taxable Refunding Bonds Issue #1 provided the District a net interest savings of \$17.3 million. The District also amortized \$9.3 million of debt during the current fiscal year.

The District's rated debt obligations have received the following ratings from the three major rating agencies:

| | |
|----------------------|-----|
| Fitch Ratings: | AAA |
| Moody's: | Aa1 |
| Standard and Poor's: | AAA |

Additional information on the District's long-term debt can be found in Note 9 of the Notes to the Basic Financial Statements.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general review of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director of Finance at the Irvine Ranch Water District, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.

Irvine Ranch Water District
Statement of Net Position
June 30, 2013
(with comparative data as of June 30, 2012)
(amounts expressed in thousands)

| | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Investments (note 2) | \$ 275,905 | \$ 240,893 |
| Receivables: | | |
| Customer accounts receivable | 8,354 | 6,538 |
| Interest receivable | 310 | 376 |
| Joint Powers Agency (JPA) interest receivable | 18,102 | 19,009 |
| Notes receivable, current portion | 12 | 11 |
| Allen-McColloch Pipeline receivable, current portion (note 8) | 530 | 492 |
| Due from other agencies (note 17) | 38,669 | 35,179 |
| Other receivables | 4,273 | 8,575 |
| Total receivables | <u>70,250</u> | <u>70,180</u> |
| Other Current Assets: | | |
| Inventories (note 4) | 4,241 | 2,233 |
| Prepaid items and deposits | 12,232 | 13,640 |
| JPA investment program, current portion (note 2) | 620,895 | 30,462 |
| Total other current assets | <u>637,368</u> | <u>46,335</u> |
| Total current assets | <u>983,523</u> | <u>357,408</u> |
| Noncurrent Assets: | | |
| Capital Assets (note 5): | | |
| Waterworks in service | 889,988 | 813,675 |
| Sewer plant in service | 920,658 | 922,018 |
| Subtotal | <u>1,810,646</u> | <u>1,735,693</u> |
| Less accumulated depreciation | (597,774) | (551,207) |
| Total capital assets being depreciated, net | <u>1,212,872</u> | <u>1,184,486</u> |
| Land and water rights | 85,569 | 66,162 |
| Construction in progress | 207,613 | 258,177 |
| Total capital assets, net | <u>1,506,054</u> | <u>1,508,825</u> |
| Other Noncurrent Assets: | | |
| Debt service cash and investments (note 2) | 29,083 | 68,949 |
| Investments - swap collateral (note 2) | 14,536 | 26,654 |
| Unamortized debt issuance expense | 2,208 | 2,407 |
| Notes receivable, net of current portion | 127 | 137 |
| Allen-McColloch Pipeline receivable, net (note 8) | 1,854 | 2,384 |
| JPA investment program, net of current portion (note 2) | - | 649,130 |
| Real estate investments (note 7) | 46,811 | 48,325 |
| Net pension asset (note 13) | 15,148 | 11,605 |
| Benefits trust asset (note 13) | 35,000 | |
| Total other noncurrent assets | <u>144,767</u> | <u>809,591</u> |
| Total noncurrent assets | <u>1,650,821</u> | <u>2,318,416</u> |
| TOTAL ASSETS | <u>2,634,344</u> | <u>2,675,824</u> |
| DEFERRED OUTFLOW OF RESOURCES: | | |
| Accumulated decrease in fair value of swap agreements (note 3) | <u>37,493</u> | <u>52,959</u> |

(Continued)

Irvine Ranch Water District
Statement of Net Position
June 30, 2013
(with comparative data as of June 30, 2012)
(amounts expressed in thousands)

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Account payable and accrued expenses | \$ 21,414 | \$ 24,968 |
| Customer deposits and advance payments | 264 | 449 |
| Accrued interest: | | |
| General obligation bonds | 1,683 | 1,685 |
| JPA revenue bonds | 4,519 | 8,554 |
| Other accrued interest payable | 2,384 | 2,474 |
| Current portion of long-term liabilities: | | |
| General obligation bonds (note 9) | 15,446 | 14,206 |
| Certificates of participation (note 9) | 5,517 | 4,917 |
| JPA revenue bonds (note 9) | 610,568 | 39,904 |
| Notes payable (note 9) | 256 | 254 |
| Other long term liabilities (note 9) | 1,380 | 1,090 |
| Deferred revenue (note 10) | 525 | 525 |
| Claims liability (note 17) | 562 | - |
| Total current liabilities | <u>664,518</u> | <u>99,026</u> |
| Long-Term Liabilities: | | |
| General obligation bonds, net of current portion (note 9) | 518,898 | 534,343 |
| Certificates of participation, net of current portion (note 9) | 73,181 | 78,698 |
| JPA revenue bonds, net of current portion (note 9) | - | 598,618 |
| Notes payable, net of current portion (note 9) | 1,984 | 2,240 |
| Other long term liabilities (note 9) | 2,716 | 3,305 |
| Deferred revenue, net of current portion (note 10) | 8,900 | 9,425 |
| Claims liability, net of current portion (note 17) | 526 | - |
| Net OPEB obligation (note 14) | 2,444 | 2,210 |
| Swap liability (note 3) | 37,493 | 52,959 |
| Total long-term liabilities | <u>646,142</u> | <u>1,281,798</u> |
| TOTAL LIABILITIES | <u>1,310,660</u> | <u>1,380,824</u> |
| NET POSITION (note12): | | |
| Net investment in capital assets | 919,856 | 943,114 |
| Restricted for water services | 207,922 | 203,372 |
| Restricted for sewer services | 233,399 | 201,473 |
| TOTAL NET POSITION | <u>\$ 1,361,177</u> | <u>\$ 1,347,959</u> |

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(with comparative data for the Fiscal Year Ended June 30, 2012)
(amounts expressed in thousands)

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| OPERATING REVENUES: | | |
| Water sales and service charges | \$ 62,565 | \$ 57,558 |
| Sewer sales and service charges | 53,085 | 49,234 |
| Total operating revenues | <u>115,650</u> | <u>106,792</u> |
| OPERATING EXPENSES: | | |
| Water: | | |
| Water services | 48,911 | 42,741 |
| General and administrative | 14,619 | 12,305 |
| Customer accounts | 2,252 | 2,142 |
| Sewer: | | |
| Sewer services | 36,688 | 31,754 |
| General and administrative | 8,048 | 7,792 |
| Customer accounts | 1,501 | 1,332 |
| Depreciation | 47,539 | 41,378 |
| Total operating expenses | <u>159,558</u> | <u>139,444</u> |
| Operating income (loss) | <u>(43,908)</u> | <u>(32,652)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Property taxes | 41,068 | 38,062 |
| Investment income | 224 | 3,132 |
| Increase (decrease) in fair value of investments | (29,180) | (23,586) |
| JPA investment income | 49,178 | 51,530 |
| Real estate income | 10,789 | 11,039 |
| Other income | 8,323 | 6,141 |
| Interest expense | (16,770) | (16,924) |
| JPA interest expense | (28,884) | (39,603) |
| Real estate expense | (6,047) | (6,016) |
| Other expenses | (6,110) | (10,713) |
| Total nonoperating revenues (expenses) | <u>22,591</u> | <u>13,062</u> |
| Income (loss) before capital contributions | (21,317) | (19,590) |
| CAPITAL CONTRIBUTIONS: | | |
| Donated facilities | 9,742 | 6,037 |
| Connection fees | 17,314 | 9,030 |
| Other | 7,479 | 10,881 |
| Increase (decrease) in net position | <u>13,218</u> | <u>6,358</u> |
| NET POSITION AT BEGINNING OF YEAR | <u>1,347,959</u> | <u>1,341,601</u> |
| NET POSITION AT END OF YEAR | <u>\$ 1,361,177</u> | <u>\$ 1,347,959</u> |

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Cash Flows
Year ended June 30, 2013
(with comparative data for June 30, 2012)
(amounts expressed in thousands)

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and users | \$ 117,426 | 102,143 |
| Cash paid to suppliers of goods and services | (44,143) | (49,497) |
| Cash paid for employees services | (43,805) | (39,141) |
| Net cash provided by (used for) operating activities | <u>29,478</u> | <u>13,505</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Property tax receipts | <u>39,089</u> | <u>36,165</u> |
| Net cash provided by noncapital financing | <u>39,089</u> | <u>36,165</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (64,942) | (115,930) |
| Proceeds from issuance of long-term debt | 257,355 | 53,540 |
| Refunding of long-term debt | (256,282) | - |
| Principal payments on long-term liabilities | (57,856) | (118,294) |
| Interest and issuance costs on long term liabilities | (40,623) | (47,917) |
| Developer connection fees and related receipts | <u>24,793</u> | <u>19,911</u> |
| Net cash provided by (used for) capital and related financing activities | <u>(137,555)</u> | <u>(208,690)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment earnings | 49,799 | 53,266 |
| Investment earnings in real estate | 6,256 | 5,023 |
| Proceeds from sale or maturity of investments | 156,483 | 237,572 |
| Purchases of investments | (193,108) | (251,845) |
| Acquisition of real estate | - | (6,965) |
| Collections on notes receivable | 514 | 482 |
| Additions to notes receivable | <u>(14)</u> | <u>(12)</u> |
| Net cash provided by (used for) investing activities | <u>19,930</u> | <u>37,521</u> |
| Net increase (decrease) in cash and cash equivalents | (49,058) | (121,499) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>189,582</u> | <u>311,081</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 140,524</u> | <u>189,582</u> |

See accompanying notes to the basic financial statements.

**Irvine Ranch Water District
Statement of Cash Flows
(Continued)**

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|--------------------|
| Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Assets: | | |
| Cash and investments | \$ 275,905 | \$ 240,893 |
| JPA investment program, current portion | 620,895 | 30,462 |
| Debt service cash and investments | 29,083 | 68,949 |
| Investments - swap collateral | 14,536 | 26,654 |
| Benefits trust asset | 35,000 | - |
| JPA investment program, net of current portion | <u>-</u> | <u>649,130</u> |
| Subtotal | 975,419 | 1,016,088 |
| Less investments with maturities greater than 3 months | <u>(834,895)</u> | <u>(826,506)</u> |
| Cash and cash equivalents at end of year | <u>\$ 140,524</u> | <u>\$ 189,582</u> |
| Reconciliation of operating income to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (43,908) | \$ (32,652) |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | |
| Other nonoperating income | 8,323 | 6,141 |
| Other nonoperating expenses | (6,110) | (10,713) |
| (Gain) loss on disposition of capital assets | 16,737 | 3,503 |
| Depreciation | 47,539 | 41,378 |
| (Increase) decrease in customer receivables | (1,816) | (583) |
| (Increase) decrease in other receivables | 4,302 | (2,477) |
| (Increase) decrease in inventories | (2,008) | (430) |
| (Increase) decrease in due from other agencies | 11,299 | 12,782 |
| (Increase) decrease in prepaid expenses and other assets | 1,409 | 1,368 |
| (Increase) decrease in net pension asset | (3,543) | (322) |
| Increase (decrease) in accounts payable and accrued expenses | (3,553) | (3,138) |
| Increase (decrease) in customer deposits and advance payments | (185) | (995) |
| Increase (decrease) in compensated absences | 195 | 11 |
| Increase (decrease) in claims payable | 1,088 | - |
| Increase (decrease) in unearned revenue | (525) | (594) |
| Increase (decrease) in net OPEB obligation | <u>234</u> | <u>226</u> |
| Net cash provided by (used for) operating activities | <u>\$ 29,478</u> | <u>\$ 13,505</u> |
| Noncash investing, capital and financing activities: | | |
| Contributions of capital assets from developers | \$ 9,742 | \$ 6,037 |
| Unrealized gain (loss) on investments | <u>(29,180)</u> | <u>(23,586)</u> |
| Total noncash investing, capital and financing activities | <u>\$ (19,438)</u> | <u>\$ (17,549)</u> |

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Irvine Ranch Water District (District) was formed in 1961 as a special district under Division 13 of the California Water Code (the Act). The District provides potable and reclaimed water service as well as sewage collection, treatment, and disposal to users within its boundaries.

The District is divided geographically into sixteen water and seventeen sewer improvement districts (IDs), as well as several planning areas (PAs) that function as informal improvement districts. Each improvement district is a sub-fund of the District and their primary purpose is to allocate costs and funding on an equitable basis for the construction of water, sewer, and reclaimed water infrastructure. Most improvement districts have authority to issue general obligation bonds to finance the construction of capital facilities that were identified and valued in a Plan of Works specific to the improvement district. Each improvement district with authority to issue general obligation bonds also has the authority to levy and collect connection fees and ad valorem taxes on the land within its legal boundaries sufficient to meet its general obligation bond indebtedness.

Connection fees which are paid by developers and property taxes which are paid by property owners vary by improvement district based upon, among other considerations, total capital costs, ratio of developed to undeveloped land, and development densities; however, water and sewer user fees are uniform throughout the District, with the exceptions of the Los Alisos and Orange Park Acres service areas. The Los Alisos and Orange Park Acres areas were consolidated into the District in 2001 and 2008, respectively. Los Alisos and Orange Park Acres currently have separate user rate structures for water sales and service charges.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

Description of the Reporting Entity

The financial statements of the District include the financial activities of the following sub-fund improvement districts and planning areas:

Irvine Ranch Water District IDs and PAs:

| | |
|-------------------------------|--|
| 100/101/199 & 200/210/211/299 | Overall District Boundary (excluding new annexations) |
| 112/212 | Former El Toro Marine Base |
| 113/213 | Former Tustin Marine Base |
| 115/215 | Redevelopment Associated with Irvine Business Complex |
| 120/121 & 220/221 | Woodbridge/Irvine |
| 130/230 | Irvine Business District/Spectrum/ Shady Canyon/Laguna Laurel |
| 135/235 | Los Alisos Area |
| 140/240 | Newport Coast/Newport Ridge |
| 150/250 | Tustin Ranch/Northern Sphere |
| 252 | Santiago Hills |
| 153/253 | East Orange |
| 154/155 | Santiago Canyon(s) |
| 156/256 | Orange Park Acres |
| 160/161 & 260/261 | Turtle Rock |
| 182/282 | Foothill Ranch Residential |
| 184/284 | Foothill Ranch Commercial |
| 186/189 & 286/289 | Portola Hills Residential |
| 188/288 | Portola Hills Commercial |

Blended Component Units – Blended component units although legally separate entities, are, in substance, part of the District’s operations since they have the same governing board. The District has the following blended component units:

The Irvine Ranch Water District Water Service Corporation – In January 1997, the District formed a 501(c)(4) corporation for the purpose of financing and acquiring water, sewer and other public improvements. The Corporation was created to effect the merger of the Santa Ana Heights Water Company and the issuance of the 2002 Certificates of Participation, 2008 Refunding Certificates of Participation, and 2010 Refunding Certificates of Participation.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

The Irvine Ranch Water District Water Service Corporation (Continued)

The Corporation's bylaws mandate that the members of the District's Board of Directors shall constitute the Corporation's five-member Board of Directors. The Irvine Ranch Water District Water Service Corporation does not issue separate financial statements.

IRWD Water Service Company II, LLC (LLC II) – LLC II was created to effect the merger of the Orange Park Acres Mutual Water Company into the Irvine Ranch Water District. The merger became effective on June 1, 2008. The Orange Park Acres area's financial data and transactions are included in Planning Area 156. The two members of the LLC II are the District and the Irvine Ranch Water District Water Service Corporation (described above). The LLC II does not issue separate financial statements.

The Irvine Ranch Water District Joint Powers Agency (JPA) – The JPA was formed pursuant to a joint powers agreement, amended as of January 1, 1988, between the District and the Community Facilities District of the Irvine Ranch Water District. The agreement remains in effect until all bonds or other indebtedness issued have been retired. The JPA is governed by a Commission consisting of the five members of the Board of Directors of the District. The District selects the management of the JPA, is able to significantly influence operations and has full accountability for fiscal affairs. The JPA's financial data and transactions are included in Improvement Districts identified in the accompanying Supplementary Information schedules as 300 and 400. The JPA does not issue separate financial statements.

Bardeen Partners, Inc. – In March 1991, the District formed a 501(c)(4) corporation for the purpose of accounting for the financial data and transactions for certain of the District's real estate investments, including the investments in Wood Canyon Villas, Sycamore Canyon Apartments, and Irvine Technology Center. Bardeen Partners is governed by a Board of Directors consisting of the five members of the District's Board of Directors. The District accounts for the Corporation's activities in Improvement Districts identified in the accompanying Supplementary Information schedules as 801 through 804. Bardeen Partners does not issue separate financial statements.

Irvine Ranch Water District Improvement Corporation – In August 1986, the District formed a 501(c)(4) corporation for the purpose of financing water, sewer and other public improvements. The Corporation's only transactions are related to the debt service payments on the outstanding 1986 Certificates of Participation which were refunded by the Irvine Ranch Water District Service Corporation Certificates of Refunding Series 2010.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

Irvine Ranch Water District Improvement Corporation (Continued)

The Corporation is governed by the five members of the Board of Directors of the District. The District accounts for the Corporation's activities in several Improvement Districts. The Irvine Ranch Water District Improvement Corporation does not issue separate financial statements. There is no current activity for the Corporation.

(b) Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to the Basic Financial Statements.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Internal activity has been eliminated in the accompanying basic financial statements.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water and sewer operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include cost of sales and services, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Capital contributions consist of contributed capital assets, connection fees, grants and other charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

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

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

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

When both restricted and unrestricted resources are available for use, the District uses unrestricted resources first, and then restricted resources as they are needed. For capital expenditures, legally available restricted bond proceeds are used first, and then other restricted resources, then unrestricted resources are used if needed.

(d) Property Taxes

The District is authorized under the Act to levy taxes on all taxable property (lands only) within its boundaries for the purposes of paying certain of its debt obligations, subject to certain limitations in the Act, the Revenue and Taxation Code and the California Constitution. The District also receives a portion of the County's 1% ad valorem property taxes from certain lands within its boundaries. Property tax revenue is recognized in the fiscal year in which the taxes are levied.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(d) Property Taxes (Continued)

The property tax calendar is as follows:

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

The assessment, levy and collection of property taxes are the responsibility of the County of Orange, and are remitted to the District periodically.

(e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

(f) Investments

Investments are reported in the accompanying Statement of Net Assets at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *increase (decrease) in fair value of investments* reported for that fiscal year. *Investment income* includes interest earnings.

(g) Real Estate Investments

Real estate investments consist of a wholly-owned apartment complex and three commercial office buildings. The District is also a party to a real estate limited partnership in which the District has a 50% or less ownership interest and does not exercise control. The limited partnership is accounted for using the cost method of accounting.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(h) Inventory and Prepaid Items

Water inventory is stated at its purchase cost using the first in, first out method. Inventory is recorded when purchased, and expensed at the time the inventory is consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(i) Capital Assets and Depreciation

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The District capitalizes all assets with a historical cost of at least \$2,500 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

| | |
|---------------------------------|----------------|
| Buildings and Structures | 3 to 100 years |
| Transmissions and Distributions | 10 to 75 years |
| Machinery and Equipment | 3 to 50 years |

(j) Capitalized Interest

Interest costs on related borrowings are capitalized during the construction period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset.

(k) Unamortized Debt Issuance Expense

Direct expenses incurred in obtaining financing are capitalized and amortized over the lives of the respective borrowings.

(l) Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave benefits up to certain limits. Earned vacations pay to a maximum of 320 hours (or more with written approval of the General Manager).

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(l) Compensated Absences (Continued)

Sick leave hours accrue at the rate of one day per month and employees may elect to receive cash for accumulated sick leave for up to 96 hours in excess of the first 40 hours accumulated. 50% of accumulated sick leave up to a maximum of 960 hours may be paid upon termination of employment. All accumulated vacation and vested sick leave pay is recorded as expense at the time the benefit is earned.

(m) 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.

(n) Comparative Financial Statements and Reclassifications

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

(o) Adopted GASB Pronouncements

GASB Statement No. 61 – The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus; and amendment of GASB Statements No. 14 and No. 34*. The Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blended vs. discrete) presentation, and certain disclosure requirements. The Statement was implemented effective July 1, 2012, which had no impact on the District.

GASB Statement No. 62 – The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement codifies into GASB accounting and financial reporting standards the “legacy” standards from the private-sector. The Statement was implemented effective July 1, 2012, which had no impact on the District.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(o) GASB Pronouncements (Continued)

GASB Statement No. 63 – The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The Statement was implemented effective July 1, 2012.

(2) Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows (in thousands):

| | | |
|---|----|---------|
| Cash and investments | \$ | 275,905 |
| Debt service cash and investments | | 29,083 |
| Investments-Swap collateral | | 14,536 |
| Subtotal | | 319,524 |
| | | |
| JPA investment program, current portion | | 620,895 |
| Subtotal JPA investments* | | 620,895 |
| | | |
| Total cash and investments | \$ | 940,419 |

*See note 9 for corresponding JPA long-term liabilities.

Cash and investments as of June 30, 2013 consist of the following (in thousands):

| | | |
|--------------------------------------|----|---------|
| Cash on hand | \$ | 3 |
| Deposits with financial institutions | | 2,073 |
| Investments | | 938,343 |
| Total cash and investments | \$ | 940,419 |

Investments-Swap Collateral funds are held in separate trust accounts and earn the Federal Funds Effective Rate which was 0.07% as of June 30, 2013.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(2) Cash and Investments (Continued)

Authorized Investment Policy

The following table identifies the investment types that are authorized for the District by the California Government Code, the California Water Code, and the District's investment policy, whichever is most restrictive. The table also identifies certain provisions that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity*</u> | <u>Maximum Percentage of Portfolio**</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|--------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | None |
| Medium-Term Notes | 5 years | 30% | None |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| Orange County Treasury Pool | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Real estate investments | N/A | 30% *** | None |

* Maximum maturity unless express authority has been granted otherwise by the Board of Directors pursuant to the California Government Code Section 53601.

** Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

*** 30% of Replacement Fund, as authorized by the California Water Code.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(2) Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. Except for the bonds issued by the District's Joint Powers Authority (JPA), none of the District's bond trustees hold any debt proceeds or monies that are subject to investment under the debt agreements. The table below identifies the investment types that are authorized for investments held by the JPA bond trustee, subject to certain restrictions in the debt agreements.

Authorized Investment Type
U.S. Treasury Obligations
U.S. Agency Securities
Certificates of Deposit
Bankers Acceptances
Commercial Paper
Money Market Mutual Funds
Repurchase Agreements
Investment Contracts

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(2) Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity (in thousands):

| <u>Investment Type</u> | <u>Amount</u> | <u>Remaining Maturity</u> | |
|------------------------------|---------------|---------------------------|------------------------|
| | | <u>12 Months Or Less</u> | <u>13 to 36 Months</u> |
| Federal Agency Securities | \$ 199,464 | 30,108 | 169,356 |
| Local Agency Investment Fund | 103,447 | 103,447 | - |
| Treasury Equivalents* | 14,536 | | 14,536 |
| JPA Cash and Investments: | | | |
| Federal Agency Securities | 238,688 | 238,688 | - |
| Investment contract | 382,208 | 382,208 | - |
| Total | \$ 938,343 | 754,451 | 183,892 |

*Treasury Equivalents represent invested swap collateral earning the Effective Federal Funds Rate of interest which was 0.07% as of June 30, 2013.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type (in thousands).

| <u>Investment Type</u> | <u>Amount</u> | <u>Rating as of Year End</u> | |
|------------------------------|---------------|------------------------------|------------------|
| | | <u>Between AA- and AA+</u> | <u>Not Rated</u> |
| Federal Agency Securities | \$ 199,464 | 199,464 | |
| Local Agency Investment Fund | 103,447 | | 103,447 |
| Treasury Equivalents | 14,536 | | 14,536 |
| JPA cash and investments: | | | |
| Federal Agency Securities | 238,688 | 238,688 | |
| Investment Contract | 382,208 | | 382,208 |
| Total | \$ 938,343 | 438,152 | 500,191 |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(2) Cash and Investments (Continued)

Disclosures Relating to Credit Risk

The District did not have any minimum legal ratings at June 30, 2013.

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

The credit rating of AIG at June 30, 2013 is A-/BBB/Baa1. The AIG investment contract is the only investment security in the trust estate of the Taxable Refunding Bond Issue #1 issued by the Irvine Ranch Water District JPA in February 1998. These bonds are secured solely by the trust estate, and there is no recourse to the District for the payment of principal and interest due on the bonds.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows (in thousands):

| <u>Issuer</u> | <u>Investment Type</u> | <u>Amount</u> |
|---------------|---------------------------------|--------------------------|
| FNMA | Federal Agency Securities | \$ 293,472 |
| FFCB | Federal Agency Securities | 84,718 |
| FHLB | Federal Agency Securities | 39,931 |
| FHLMC | Federal Agency Securities | 20,031 |
| | Total Federal Agency Securities | <u>438,152</u> |
| AIG | Investment Contract | 382,208 |
| | Total | <u><u>\$ 820,360</u></u> |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(3) Interest Rate Swap Agreements

In September 2003, the District's Board of Directors approved a policy regarding the use of interest rate swap transactions. The policy provides that interest rate swap transactions will be designed to enhance the relationship between risk and return with respect to an investment or a program of investments entered into by the District; and/or to reduce the amount or duration of payment, rate, spread, or similar risk; and/or result in a lower cost of borrowing when used in combination with bonds or other indebtedness of the District. Pursuant to the policy, the Board of Directors authorizes general parameters for interest rate swap transactions while the Finance and Personnel Committee structures specific transactions within the Board-authorized parameters. The Treasurer, with the concurrence of the Chairman of the Finance and Personnel Committee, is authorized to enter into interest rate swap transactions that are within all authorized parameters.

The International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, including the schedule and credit support annex, is used as the form of contract with interest rate swap counterparties. The District is compliant with all recently enacted Dodd-Frank Protocol provisions implemented during FY 2012-13 regarding swap advisor representation and transparency.

All outstanding interest rate swaps are pay-fixed, receive variable swaps ("fixed payer swaps"). As of June 30, 2013, the notional amount and fair value balance of the District's interest rate swaps is \$130.0 million and \$(37.5) million, respectively. For the year ended June 30, 2013, the increase in fair market value of the fixed payer interest rate swaps was \$15.5 million.

The fair value of the swap agreements at June 30, 2013 is calculated using a zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming, for the LIBOR fixed payer swaps, that the current LIBOR forward rates implied by the LIBOR yield curves correctly anticipate future LIBOR spot interest rates. These payments are discounted using the spot rates implied by the current yield curves for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

The District's fixed payer swaps were executed in 2004, and became effective in 2006 and 2007. The purpose of the fixed payer swaps was to hedge a portion of the interest rate risk exposure associated with the District's 100% variable rate debt structure at the time the swaps were executed. The interest rate swap notional amounts and maturities are not specifically related to a particular District debt issue, however are considered a hedge of a pooled portion of the District's variable rate debt exposure. The following table displays the objective and terms of the District's interest rate swaps outstanding at June 30, 2013, along with the credit rating of the associated counterparty.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(3) Interest Rate Swap Agreements (Continued)

Current Year Active Interest Rate Swaps (in thousands):

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Rating |
|-------------|---|-----------------|----------------|---------------|---------------------------------|---------------------|
| Fixed Payer | Hedge of changes in cash flows on pool of variable rate debt issues | \$ 20,000 | 6/04/06 | 6/04/19 | Pay 6.200%; receive 1-Mo. LIBOR | A3/A/A |
| Fixed Payer | Hedge of changes in cash flows on pool of variable rate debt issues | 20,000 | 6/04/06 | 6/04/19 | Pay 6.200%; receive 1-Mo. LIBOR | Baa2/A-/A |
| Fixed Payer | Hedge of changes in cash flows on pool of variable rate debt issues | 30,000 | 6/17/06 | 6/17/19 | Pay 6.140%; receive 1-Mo. LIBOR | A3/A/A |
| Fixed Payer | Hedge of changes in cash flows on pool of variable rate debt issues | 30,000 | 3/10/07 | 3/10/29 | Pay 5.687%; receive 1-Mo. LIBOR | Baa2/A-/A |
| Fixed Payer | Hedge of changes in cash flows on pool of variable rate debt issues | 30,000 | 3/10/07 | 3/10/29 | Pay 5.687%; receive 1-Mo. LIBOR | A3/A/A |

The ISDA agreements for the above referenced interest rate swaps include a provision that the counterparties shall be required to post collateral should the mark-to-market value of the total interest rate swap portfolio with the respective counterparty, including any current outstanding swap accruals, exceed a threshold of (\$15.0) million. The amount of the collateral posted shall be the amount of the mark-to-market value plus outstanding swap accrual amounts in excess of (\$15.0) million. As of June 30, 2013, the mark-to-market value of the total interest rate swaps with Citibank N.A. as counterparty exceeded the threshold amount requiring a collateral deposit in the amount of \$11.9 million, and the mark-to-market value of the total interest rate swaps with Merrill Lynch Capital Services, Inc. as counterparty exceeded the threshold amount requiring a collateral deposit in the amount of \$2.6 million. The collateral funds are held in separate trust accounts and earn interest at the Federal Funds Effective Rate (0.07% as of June 30, 2013). Swap collateral funds totaling \$14.5 million are included as non-current Investment-Swap Collateral on the Statement of Net Position as of June 30, 2013.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(3) Interest Rate Swap Agreements (Continued)

Credit risk: The District is exposed to credit risk on interest rate swaps. To minimize its exposure to loss related to credit risk, the District's policy requires that the Finance and Personnel Committee evaluate and approve the counterparty creditworthiness of each counterparty prior to executing an ISDA Agreement, and all current swap agreements include collateral posting provisions. These terms require full collateralization of the fair value of interest rate swaps in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below BBB+ as issued by Fitch Ratings and Standard & Poor's or Baa1 as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasuries, or other approved securities, held by a third-party custodian.

The District has executed interest rate swap transactions with two counterparties. Their ratings are A3/A/A (62% of net exposure to credit risk) and Baa2/A-/A (38% of net exposure to credit risk).

Interest rate risk: The District is exposed to interest rate risk on its interest rate swaps. On its fixed payer swaps, as LIBOR's swap index decreases, the District's net payment on the swap increases. Alternatively, on its fixed payer swaps, as LIBOR's swap index increases, the District's net payment on the swap decreases.

Basis risk: The District is exposed to basis risk on its fixed payer swaps because the variable-rate payments received by the District on these swaps are based on a rate or index other than interest rates the District pays on its variable-rate debt, which is remarketed daily or weekly.

Termination risk: The District or its counterparties may terminate an interest rate swap if the other party fails to perform under the terms of the contract. If at the time of termination, an interest rate swap is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Collateral requirements: All of the District's interest rate swaps include provisions that require the District to post collateral in the event its credit rating falls below A as issued by Fitch Ratings and Standard & Poor's or A2 as issued by Moody's Investors Service.

The collateral posted is to be in the form of U.S. Treasuries or other approved securities in the amount of the fair value of interest rate swaps in liability positions net of the effect of applicable netting arrangements. If the District does not post collateral, the swaps may be terminated by the counterparty. The District's credit rating is Aa1/AAA/AAA; therefore, no additional collateral has been posted at June 30, 2013, other than the collateral posted as a result of the mark-to-market valuations at June 30, 2013.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(4) Inventories

Inventories consist of available water in storage and materials and supplies in the District's warehouse facility. As of June 30, 2013, the District had 3,367 acre-feet of untreated water stored in the Irvine Lake in the amount of \$2.0 million. In addition, the District had 23,351 acre-feet of banked water in various water bank facilities in the amount of \$0.7 million. Inventories at June 30, 2013 consisted of the following (in thousands):

| | |
|------------------------|-----------------|
| Water in Storage | \$ 2,742 |
| Materials and Supplies | <u>1,499</u> |
| Total | <u>\$ 4,241</u> |

(5) Capital Assets

Capital Asset activity for the year ended June 30, 2013 is as follows (in thousands):

| | Balance at June 30, 2012 | Additions | Deletions | Balance at June 30, 2013 |
|---------------------------------------|-----------------------------|-------------------|---------------------|-----------------------------|
| Capital assets: | | | | |
| Land Leasehold | \$ 4,860 | \$ - | \$ - | \$ 4,860 |
| Buildings and Structures | 611,223 | 55,240 | (49,519) | 616,944 |
| Transmissions and Distributions | 896,462 | 40,926 | (664) | 936,724 |
| Machinery and Equipment | 223,148 | 29,314 | (344) | 252,118 |
| Sub-total | <u>1,735,693</u> | <u>125,480</u> | <u>(50,527)</u> | <u>1,810,646</u> |
| Less: Accumulated depreciation: | | | | |
| Land Leasehold | (680) | (97) | | (777) |
| Buildings and Structures | (192,340) | (18,610) | 28 | (210,922) |
| Transmissions and Distributions | (268,004) | (19,885) | 607 | (287,282) |
| Machinery and Equipment | (90,183) | (8,947) | 337 | (98,793) |
| Sub-total | <u>(551,207)</u> | <u>(47,539)</u> | <u>972</u> | <u>(597,774)</u> |
| Total depreciable capital assets, net | 1,184,486 | 77,941 | (49,555) | 1,212,872 |
| Capital assets, non-depreciable: | | | | |
| Land and Water Rights | 66,162 | 19,407 | | 85,569 |
| Construction In Progress | 258,177 | 67,148 | (117,712) | 207,613 |
| Total capital assets, net | <u>\$ 1,508,825</u> | <u>\$ 164,496</u> | <u>\$ (167,267)</u> | <u>\$ 1,506,054</u> |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(6) Capitalized Amounts

Net interest costs and certain administrative and general expenses relating to assets under construction are charged to construction-in-progress until the assets are ready for their intended use. The amount of administrative and general expenses and net interest costs capitalized to construction-in-progress for the year ended June 30, 2013 is as follows (in thousands):

| | |
|--|------------------|
| Administrative and general expenses, capitalized | \$ 8,236 |
| Interest expenses, capitalized* | <u>3,985</u> |
| | <u>\$ 12,221</u> |

* The total amount of interest cost incurred for the year ended June 30, 2013 (both the amounts expensed and the amounts capitalized) was \$49,639, including \$28,884 of interest on JPA Bonds.

(7) Real Estate Investments

Real estate investments are as follows at June 30, 2013 (in thousands):

| | |
|---------------------------------|------------------|
| Wood Canyon Villas, L.P. | \$ 6,000 |
| Sycamore Canyon Apartments | 19,884 |
| 230 Commerce Office Property | 4,108 |
| Waterworks Way Business Park | 8,260 |
| Sand Canyon Professional Center | <u>8,559</u> |
| Total | <u>\$ 46,811</u> |

Included in real estate investments are two apartment properties and three commercial office buildings. The District, through Bardeen Partners, Inc., is the sole limited partner in Wood Canyon Villas, L.P. (Wood Canyon), and the sole owner of both Sycamore Canyon Apartments and a commercial office building (230 Commerce). Separate from Bardeen Partners, Inc., the District is the sole owner of two other commercial office buildings (Waterworks Way Business Park and Sand Canyon Office Property).

The construction of Wood Canyon, a 230-unit apartment complex, was completed in 1993. The complex is located in Orange County, California, and was 95% occupied at June 30, 2013. The Wood Canyon partnership agreement provides the District with a 9% cumulative preferred return on its unrecovered contribution accounts, as defined in the agreement (initially \$6.0 million). The District's capital contributions and preferred return are guaranteed by the principals of the general partner.

In 1992, the District acquired a 450-unit apartment property (original cost, \$34.1 million) in Orange County, California known as Sycamore Canyon Apartments. The property was 95% occupied at June 30, 2013. In addition, the Sycamore Canyon Apartments completed a renovation project in 2007 for a total cost of \$9.6 million.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(7) Real Estate Investments (Continued)

In 2003, the District completed construction of the 41,000 square foot for-lease 230 Commerce general office building located in Irvine, California. Land and construction costs for the project totaled \$5.6 million and the building was 90% occupied as of June 30, 2013.

In November 2008, the District completed construction of a 37,200 square foot for-lease R&D office building located in Irvine, California known as the Waterworks Way Business Park. Construction of the building was a specific facilities requirement of the purchase agreement for land acquired for an adjacent District water treatment facility. Land and construction costs for the office project totaled \$9.0 million. As of June 30, 2013 the building was 100% occupied.

In April 2012, the District completed construction of a 16,350 square foot for-lease medical office building located in Irvine, California known as the Sand Canyon Professional Center. Land and construction cost for the project totaled \$8.4 million and the building was 74% occupied as of June 30, 2013.

Net real estate income as of June 30, 2013 was as follows (in thousands):

| | | |
|---------------------|----|----------------|
| Real estate income | \$ | 10,789 |
| Real estate expense | | (4,223) |
| Depreciation | | <u>(1,824)</u> |
| | \$ | <u>4,742</u> |

(8) Allen-McColloch Pipeline

For several years prior to 1995, the District was a part owner and participant in a 27-mile pipeline through which it received a portion of its water capacity from Metropolitan Water District (MWD). During fiscal year 1995, the District and the other participants sold the pipeline to MWD. In accordance with the sale agreement, the District will receive a total of \$45.8 million over 37 years, representing the District's ownership of approximately 42% of the pipeline project. In addition to the initial cash payment, the District has received \$43.1 million in payments under the agreement of which \$0.6 million was received for the fiscal year ended June 30, 2013. The District's receivable at June 30, 2013 of \$2.4 million is presented net of deferred imputed interest of \$0.3 million.

The sales agreement provides for the District to continue to have rights to the flow capacity from MWD, but MWD is not obligated to deliver an actual flow or quantity of water. The agreement also provides for MWD to forfeit ownership of the pipeline to the former owners (including the District) should it not make all required future payments.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013 is as follows (in thousands):

| | Balance June 30, 2012 | Additions | Deletions | Balance June 30, 2013 | Due within One Year | Due in more than One Year |
|--|--------------------------|-------------------|---------------------|--------------------------|------------------------|------------------------------|
| General Obligation Bonds: | | | | | | |
| 1989 C Consolidated | \$ 5,000 | \$ - | \$ (2,400) | \$ 2,600 | \$ 2,500 | \$ 100 |
| 1991 Consolidated | 6,400 | - | (1,100) | 5,300 | 1,200 | 4,100 |
| 1993 C Consolidated | 37,500 | - | - | 37,500 | 1,400 | 36,100 |
| 1995 Consolidated | 19,900 | - | (1,800) | 18,100 | 1,900 | 16,200 |
| 2008A Refunding | 57,600 | - | (1,200) | 56,400 | 1,200 | 55,200 |
| 2009A Consolidated | 75,000 | - | (2,500) | 72,500 | 2,500 | 70,000 |
| 2009B Consolidated | 75,000 | - | (2,500) | 72,500 | 2,500 | 70,000 |
| 2010B BABS | 175,000 | - | - | 175,000 | - | 175,000 |
| 2011A-1 Refunding | 59,075 | - | (1,655) | 57,420 | 1,380 | 56,040 |
| 2011A-2 Refunding | 39,385 | - | (1,105) | 38,280 | 920 | 37,360 |
| Unamortized Deferred Loss on Refunding | (1,311) | - | 55 | (1,256) | (54) | (1,202) |
| Total General Obligation Bonds | 548,549 | - | (14,205) | 534,344 | 15,446 | 518,898 |
| JPA Revenue Bonds: | | | | | | |
| 1998 Taxable Refunding No. 1 | 246,775 | - | (246,775) | - | - | - |
| 2010 Taxable Refunding No. 2 | 407,430 | - | (33,805) | 373,625 | 373,625 | - |
| 2012 Taxable Refunding No. 1 | - | 257,355 | (13,850) | 243,505 | 243,505 | - |
| Unamortized Amounts | (15,683) | (178) | 9,299 | (6,562) | (6,562) | - |
| Total JPA Revenue Bonds | 638,522 | 257,177 | (285,131) | 610,568 | 610,568 | - |
| Certificates of Participation: | | | | | | |
| 2010 Refunding Certificates | 77,190 | - | (4,700) | 72,490 | 5,300 | 67,190 |
| Unamortized Premium | 7,095 | - | (361) | 6,734 | 361 | 6,373 |
| Unamortized Deferred Loss on Refunding | (670) | - | 144 | (526) | (144) | (382) |
| Total Certificates | 83,615 | - | (4,917) | 78,698 | 5,517 | 73,181 |
| Notes Payable | 2,494 | - | (254) | 2,240 | 256 | 1,984 |
| Other Long-Term Liabilities: | | | | | | |
| Compensated Absences | 3,089 | 3,981 | (3,786) | 3,284 | 1,295 | 1,989 |
| Other Long-Term Liabilities | 1,306 | 1,691 | (2,185) | 812 | 85 | 727 |
| Total Other Long-Term Liabilities | 4,395 | 5,672 | (5,971) | 4,096 | 1,380 | 2,716 |
| Total Long-Term Liabilities | \$ 1,277,575 | \$ 262,849 | \$ (310,478) | \$ 1,229,946 | \$ 633,167 | \$ 596,779 |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities (Continued)

The following schedule summarizes the major terms of outstanding long-term debt (in thousands):

| | <u>Date of Issue</u> | <u>Original Issue</u> | <u>Revenue Sources</u> | <u>Final Maturity Date</u> | <u>Interest Rates</u> |
|---------------------------------------|----------------------|-----------------------|------------------------|----------------------------|-----------------------|
| General Obligation Bonds: | | | | | |
| 1989 Consolidated | June 1, 1989 | \$ 35,000 | (1)(3) | June 1, 2015 | Variable |
| 1991 Consolidated | August 1, 1991 | 19,100 | (1)(3) | August 1, 2016 | Variable |
| 1993 Consolidated | May 1, 1993 | 38,300 | (1)(3) | April 1, 2033 | Variable |
| 1995 Consolidated | December 1, 1995 | 40,000 | (1)(3) | January 1, 2021 | Variable |
| 2008A Refunding | April 1, 2008 | 60,215 | (1)(3) | July 1, 2035 | Variable |
| 2009A Consolidated | June 4, 2009 | 75,000 | (1)(3) | October 1, 2041 | Variable |
| 2009B Consolidated | June 4, 2009 | 75,000 | (1)(3) | October 1, 2041 | Variable |
| 2010B BABS | December 16, 2010 | 175,000 | (1)(2)(3) | May 1, 2040 | 6.6% |
| 2011A-1 Refunding | April 15, 2011 | 60,545 | (1)(3) | October 1, 2037 | Variable |
| 2011A-2 Refunding | April 15, 2011 | 40,370 | (1)(3) | October 1, 2037 | Variable |
| JPA Revenue Bonds: | | | | | |
| 2010 Taxable | | | | | |
| Refunding No. 2 | April 20, 2010 | 436,955 | (4) | March 15, 2014 | 0.9-2.6% |
| 2012 Taxable | | | | | |
| Refunding No.1 | September 12, 2012 | 257,355 | (4) | March 15, 2014 | 2.4% |
| Certificates of Participation: | | | | | |
| 2010 Certificates | February 23, 2010 | 85,145 | (2) | March 1, 2032 | 3.8% |

(1) Ad valorem assessments or, in lieu of assessments, in the District's discretion, charges for water or sewer service

(2) Available water, sewer, and recycled water revenues

(3) Proceeds from the sale of property

(4) JPA investment earnings and principal amounts

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities (Continued)

General Obligation Bonds

The General Obligation Bonds were issued to fund property, water, sewer and recycled water facilities.

The annual debt service requirements for the General Obligation Bonds, including principal and interest payments (based on variable interest rates at June 30, 2013 ranging from 0.04% to 0.08% and the fixed rate for the 2010B BABs issue) are as follows (in thousands):

| Fiscal Year | Principal | Interest | Hedging Investments, Net | BAB Federal Subsidy | Total |
|---------------------------------|-------------------|-------------------|--------------------------------|---------------------------|-------------------|
| 2014 | \$ 15,500 | \$ 11,875 | \$ 7,500 | \$ (3,764) | \$ 31,111 |
| 2015 | 13,500 | 11,863 | 7,500 | (3,764) | 29,099 |
| 2016 | 14,000 | 11,852 | 7,500 | (3,764) | 29,588 |
| 2017 | 14,300 | 11,841 | 7,500 | (3,764) | 29,877 |
| 2018 | 13,100 | 11,830 | 7,500 | (3,764) | 28,666 |
| 2019-2023 | 65,000 | 58,175 | 20,550 | (18,820) | 124,905 |
| 2024-2028 | 77,635 | 56,927 | 16,521 | (18,431) | 132,652 |
| 2029-2033 | 98,915 | 51,466 | 2,570 | (16,674) | 136,277 |
| 2034-2038 | 148,190 | 36,868 | - | (11,953) | 173,105 |
| 2039-2042 | 75,460 | 5,569 | - | (1,804) | 79,225 |
| Subtotal | \$535,600 | 268,266 | 77,141 | (86,502) | 794,505 |
| Less: Unamortized amounts | (1,256) | - | - | - | (1,256) |
| Total | <u>\$ 534,344</u> | <u>\$ 268,266</u> | <u>\$ 77,141</u> | <u>\$ (86,502)</u> | <u>\$ 793,249</u> |

The above table incorporates the net receipts/payments of the hedging instruments that are associated with the variable rate debt issue(s). The amounts assume that current interest rates on variable rate bonds and the current reference rates of the hedging instruments will remain the same for their term. As these rates vary, interest payments on variable rate bonds and net receipts/payments on the hedging instruments will vary. Additionally, the above table includes the most recent BABs subsidy reduction of 7.2% under the Congressionally-mandated sequestration which began in FY 2012-13. Refer to Note 3 for additional information regarding the hedging instruments associated with the debt of the District.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities (Continued)

Joint Powers Agency (JPA) Revenue Bonds

The Irvine Ranch Water District Joint Powers Agency, established as a separate entity by an agreement between the District and Community Facilities District No. 1 of the District, issued \$400 million during fiscal 1988 and \$500 million during fiscal year 1989 of Local Agency Pool Revenue Bonds (revenue bonds). Concurrent with the issuance of these revenue bonds, the JPA established a separate trust estate for each issue comprised of authorized investments sufficient to pay the debt service (principal and interest) on each of the respective issues. Principal and interest on revenue bonds were secured solely by the respective separate trust estates.

In April 2010, the JPA issued \$437.0 million of Taxable Refunding Bonds Issue #2, which were used to refund a portion of the outstanding 1998 Taxable Refunding Bonds Issue #2. The Taxable Refunding Bonds Issue #2 are due semi-annually on March 15 and September 15 in varying amounts.

In September 2012, the JPA issued \$257.4 million of Taxable Refunding Bonds Issue #1, which were used to refund the outstanding 1998 Taxable Refunding Bonds Issue #1. The Taxable Refunding Bonds Issue #1 are due semi-annually on March 15 and September 15.

Proceeds of the refunding debt were deposited in an escrow fund pursuant to the Escrow Deposit Agreement to provide for the debt service payment due in September 2012, and to call the remaining refunded portion of 1998 Taxable Refunding Bonds Issue #1 at par.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$0.2 million. This difference, reported in the accompanying basic financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2014 using the straight-line method. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt was \$17.4 million. The economic gain (difference between the present values of the old and new debt service payments) resulting from the transaction was \$17.3 million.

At June 30, 2013, the aggregate of the JPA taxable refunding bond issues (excluding amortizations) due are as follows (in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|-------------------|------------------|-------------------|
| 2014 | \$ 617,130 | \$ 15,121 | \$ 632,251 |
| Less: Unamortized amounts | <u>(6,562)</u> | <u>-</u> | <u>(6,562)</u> |
| Total | <u>\$ 610,568</u> | <u>\$ 15,121</u> | <u>\$ 625,689</u> |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities (Continued)

Joint Powers Agency (JPA) Revenue Bonds (Continued)

At June 30, 2013, the cash flow of the underlying JPA investments securing the JPA taxable refunding bond issues is as follows (in thousands):

| Fiscal Year | Principal | Interest | Total |
|-------------|------------|-----------|------------|
| 2014 | \$ 620,895 | \$ 47,618 | \$ 668,513 |

* Amount includes accumulated increase in fair value of investments of \$16,906.

The future net cash flows of the JPA revenue bonds and underlying investments (excluding unamortized amounts and the fair value of investments) are as follows (in thousands):

| | Principal | Interest | Total |
|---------------------------|-------------|-----------|-----------|
| Net Cash Flow to District | \$ (13,141) | \$ 32,497 | \$ 19,356 |

Certificates of Participation

In February 2010, the Irvine Ranch Water District Service Corporation issued \$85.1 million of Certificates of Participation Refunding Series 2010 (the Series 2010 Certificates) to refinance the cost of certain capital improvements by refunding the outstanding principal amount of the Certificates of Participation Series 1986 and Series 2008.

The annual debt service requirements for the Certificates of Participation, including principal and interest payments, are as follows (in thousands):

| Fiscal Year | Principal | Interest | Total |
|---------------------------|-----------|-----------|------------|
| 2014 | \$ 5,300 | \$ 3,453 | \$ 8,753 |
| 2015 | 5,910 | 3,188 | 9,098 |
| 2016 | 6,545 | 2,941 | 9,486 |
| 2017 | 7,135 | 2,677 | 9,812 |
| 2018 | 1,615 | 2,380 | 3,995 |
| 2019-2023 | 10,875 | 10,505 | 21,380 |
| 2024-2028 | 16,520 | 7,258 | 23,778 |
| 2029-2032 | 18,590 | 2,410 | 21,000 |
| Subtotal | 72,490 | 34,812 | 107,302 |
| Plus: Unamortized amounts | 6,208 | - | 6,208 |
| Total | \$ 78,698 | \$ 34,812 | \$ 113,510 |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(9) Long-Term Liabilities (Continued)

Notes Payable (Continued)

The District has one outstanding loan from the State of California to fund reclaimed water projects. The balance on the 2000 loan was \$1.4 million at June 30, 2013. The annual interest rate is 0.00%, however, the loan agreement required the District to prepay interest of \$0.6 million, which is amortized over the life of the loan. The loan is payable annually in fixed installments of \$0.2 million through 2020.

The District also has one outstanding loan which was assumed as a result of its consolidation with the Santiago County Water District. The original loan amount was \$1.3 million. The loan is payable semi-annually with interest at 2.32%. The loan matures in July 2025. The balance of the loan at June 30, 2013 was \$0.8 million.

Amounts required to amortize notes payable at June 30, 2013 are as follows (in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|-----------------|
| 2014 | \$ 256 | \$ 52 | \$ 308 |
| 2015 | 257 | 51 | 308 |
| 2016 | 258 | 50 | 308 |
| 2017 | 260 | 48 | 308 |
| 2018 | 262 | 46 | 308 |
| 2019-2023 | 750 | 111 | 861 |
| 2024-2026 | 197 | 8 | 205 |
| Total | <u>\$ 2,240</u> | <u>\$ 366</u> | <u>\$ 2,606</u> |

(10) Deferred Revenue

Deferred revenue at June 30, 2013 consisted of the following (in thousands):

| | |
|--|-----------------|
| South County Water Agencies | \$ 9,425 |
| Deferred revenue, current portion | <u>525</u> |
| Deferred revenue, net of current portion | <u>\$ 8,900</u> |

On November 10, 2008, the Board approved the South Orange County – Irvine Ranch Water District Interconnection Projects Participation Agreement (Agreement). The Agreement was effective on November 2008 between the District, City of San Clemente (CSC), Laguna Beach County Water District (LBCWD), Moulton Niguel Water District (MNWD), Santa Margarita Water District (SMWD), South Coast Water District (SCWD), Municipal Water District of Orange County (MWDOC), and Orange County Water District (OCWD). The purpose of the Agreement is to allow the South County water agencies (CSC, LBCWD, MNWD, SMWD, and SCWD) to buy capacity in the

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(10) Deferred Revenue (Continued)

District system and reimburse the District for various new intertie facilities which ensure that up to 30 cfs of water supply is available in an emergency. The total cost of the agreement was paid in full by each party in the fiscal year ended June 30, 2009. The amount of deferred revenue related to the South County Water Agencies is amortized over 20 years, the term of the Agreement. The amount of amortization for the fiscal year ended June 30, 2013 was \$0.5 million.

(11) Letters of Credit

The District has letters of credit securing the payment of principal and interest on General Obligation Bonds. The letters of credit are issued in favor of the trustees and enable the trustees to make drawings against the letters of credit for payment of principal and interest amounts.

The terms of the letters of credit, as of June 30, are summarized as follows (in thousands):

| <u>Letter of Credit</u> | <u>Trustee</u> | <u>Amount</u> | <u>Expiration Date</u> |
|----------------------------|-------------------------|---------------|------------------------|
| Bank of America: | | | |
| 2009 Series B Consolidated | U.S. Bank | \$ 73,310 | December 3, 2013 |
| Bank of New York: | | | |
| 1989 Consolidated | Bank of New York Mellon | 2,635 | June 2, 2014 |
| 1991 Consolidated | Bank of New York Mellon | 5,371 | August 2, 2014 |
| 1993 Consolidated | Bank of New York Mellon | 38,013 | June 2, 2014 |
| Sumitomo Mitsui: | | | |
| 1995 Consolidated | Bank of New York Mellon | 18,368 | April 15, 2014 |
| 2008 Series A Refunding | Bank of New York Mellon | 57,234 | April 15, 2014 |
| U.S. Bank: | | | |
| 2009 Series A Consolidated | U.S. Bank | 73,310 | November 10, 2013 |

In June 2013, the Board of Directors approved agreements to extend certain letters of credit with existing providers, with the resulting extensions taking effect July 2013. Two letters of credit originally scheduled to expire in late 2013 were extended three years to 2016, and two letters of credit scheduled to expire April 2014 were extended to April 2017. The extensions will provide a reduction in the average credit support fee for these issues of 0.29%.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(12) Net Position

Net position at June 30, 2013 consisted of the following (in thousands):

| | |
|--|--------------|
| Net investment in capital assets: | |
| Property, plant and equipment, net | \$ 1,506,054 |
| Less: | |
| Outstanding debt issued to construct capital assets: | |
| General obligation bonds | (534,343) |
| Certificates of participation | (78,698) |
| Notes payable | (2,240) |
| Add back unspent portion of debt applicable to unspent bond proceeds | 29,083 |
| Total net investment in capital assets | 919,856 |
| Restricted net position: | |
| Restricted for water services | 207,922 |
| Restricted for sewer services | 233,399 |
| Total restricted net position | 441,321 |
| Total net position | \$ 1,361,177 |

(13) Defined Benefit Pension Plan (PERS)

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, 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. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Benefit provisions and all other requirements are established by State statute and the District's Board of Directors. Starting July 1, 2008, participants are required to contribute up to 8% of their annual covered salary. During the fiscal year ending June 30, 2013, the District made up to 3% of the contributions required of District employees, while the District employees made up to 6% of the contribution.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(13) Defined Benefit Pension Plan (PERS) (Continued)

In addition, the District is required to contribute an actuarially determined rate applied to annual covered payroll. The District's contribution rate for the indicated period is 16.106%. The contribution rates for the fiscal year 2013-14 and 2014-15 are 16.795% and 18.0%, respectively.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO) (negative or positive). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010.

A summary of principal assumptions and methods used to determine the ARC is shown below.

| | |
|----------------------------|---|
| Valuation Date | June 30, 2010 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 18 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.75% (net of administrative expenses) |
| Projected Salary Increases | 3.55% to 14.45% depending on Age, Service, and type of employment |
| Inflation | 3.00% |
| Payroll Growth | 3.25% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. |

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, the amortization period may not be lower than the payment calculated over a 30 year amortization period.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(13) Defined Benefit Pension Plan (PERS) (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability/ (Excess Assets) | Funded Actuarial Value | Status Market Value | Annual Covered Payroll | UAAL As a % of Payroll |
|----------------|------------------------------------|---------------------------|-------------------------------------|------------------------|---------------------|------------------------|------------------------|
| 6/30/09 | \$ 149,825 | \$ 110,923 | \$ 38,902 | 74.0% | 54.3% | \$ 24,307 | 160.0% |
| 6/30/10 | 158,904 | 124,553 | 34,351 | 78.4% | 63.0% | 24,929 | 137.8% |
| 6/30/11 | 170,392 | 140,716 | 29,676 | 82.6% | 75.6% | 24,379 | 121.7% |

Since 2009, the District has made contributions totaling \$15.1 million in excess of the ARC to PERS to reduce the overall unfunded liability. The District's annual pension cost and net pension asset, computed in accordance with GASB 27, for the year ended June 30, 2013, were as follows (in thousands):

| | |
|--|------------------|
| Annual required contribution | \$ 4,200 |
| Interest on beginning pension asset | (899) |
| Adjustment to annual required contribution | 996 |
| Annual pension cost | 4,297 |
| Contribution made | 7,840 |
| Increase (decrease) in pension asset | 3,543 |
| Net pension asset, beginning of year | 11,605 |
| Net pension asset, end of year | <u>\$ 15,148</u> |

The District recognizes that defined benefit plans and the related future pension obligations pose significant issues for many government agencies. The District has taken a proactive approach to address the issue by funding a significant portion of its future pension obligation. In the fiscal year ended June 30, 2013, the District established and funded \$35 million to the Irvine Ranch Water District Post-Employment Benefits Trust "Benefits Trust". The Benefits Trust was established to "pre-fund" a portion of the CalPERS unfunded liability, providing the District with an alternative to CalPERS that allows for investment by a professional fund management team selected and monitored by the District. Future contributions will be transferred to CalPERS for payments to employees at the District's discretion. The District intends to reduce its future liability by the amount pre-funded in the Benefits Trust. As of June 30, 2013, the Benefits Trust holds the pre-funding contributions from the District pending future remittance to the CalPERS pension trust fund. As of June 30, 2013, all Benefits Trust assets were invested in the Federated Government Obligations Fund - Institutional Shares, pending completion and approval of the Benefits Trust's Investment Policy. As of June 30, 2013, the Federated Government Obligations Fund had money market fund ratings of AAAM, Aaa-

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(13) Defined Benefit Pension Plan (PERS) (Continued)

mf and AAmmf from S&P, Moody's and Fitch, respectively. The CalPERS pension trust fund pays all retiree benefit payments associated with the plan.

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension asset for the fiscal year ended June 30, 2013 and the two preceding years were as follows:

Three-Year Trend Information
Annual Pension Cost (Employer Contribution) (in thousands)

| Fiscal Year | Employee Contribution (District Paid) | Employer Contribution | Total Employee Contribution (District Paid) and Employer Contribution | Annual Pension Cost (APC) | Percentage of APC Contribution | Net Pension Asset |
|-------------|---------------------------------------|-----------------------|---|---------------------------|--------------------------------|-------------------|
| 6/30/11 | \$ 1,728 | \$ 9,480 | \$ 11,208 | \$ 3,012 | 314.7% | \$ 11,283 |
| 6/30/12 | 1,025 | 4,643 | 5,668 | 4,321 | 107.5% | 11,605 |
| 6/30/13 | 609 | 7,840 | 8,449 | 4,297 | 182.5% | 15,148 |

(14) Other Post Employment Benefits

The District administers three other post employment benefits (OPEB) plans which are subject to changes based on the discretion of the Board:

- Retiree Health Cost Benefits: The District provides an agent multiple-employer defined benefit healthcare plan to retirees through the California Public Employee Retirement System (CalPERS) under the California Public Employees Medical and Hospital Care Act (PEMHCA), commonly referred to as PERS Health. Employees are eligible for this lifetime benefit if they retire from the District and are eligible to begin drawing a PERS pension. The District also administers a single-employer defined benefit health cost reimbursement plan which provides medical benefits to covered employees and their eligible dependents. Employees are eligible for this benefit if they retire from the District on or after age 55 with at least 10 years of service. The District reimburses retirees for eligible healthcare costs of up to \$300 per month (for retirees with at least 10 years of service at the District), to a maximum of \$600 per month after 25 years of service.
- Retiree Death Benefit Only Plan: The District administers a single-employer defined benefit plan. Employees hired on or before December 31, 2008 are eligible for term life insurance with a face amount equal to 100% of their final annual salary at the time of retirement. Employees hired after December 31, 2008 are not currently eligible for this plan.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(14) Other Post Employment Benefits (Continued)

Membership of the plan consisted of the following at June 30, 2013:

| | <u>PEMHCA</u> | <u>Retiree Health Costs Reimbursement</u> | <u>Retiree Death Benefit Only</u> |
|--|---------------|---|---------------------------------------|
| Retirees and beneficiaries receiving benefits | 64 | 48 | 82 |
| Terminated plan members entitled to but not yet receiving benefits | <u>-</u> | <u>5</u> | <u>-</u> |
| Active plan members | <u>304</u> | <u>304</u> | <u>236</u> |
| Total | <u>368</u> | <u>357</u> | <u>318</u> |

The District reports the financial activity of the three plans in its basic financial statements. No separate benefit plan report is issued.

Annual OPEB Cost and Net OPEB Obligation

The required contributions for the District's various other post employment benefits are based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually the District's Board of Directors.

The District's annual OPEB expense is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) as a level dollar open period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2013, the amount actually contributed for each OPEB benefit, and the changes in the District's net OPEB obligation:

| | <u>PEMHCA</u> | <u>Retiree Health Costs Reimbursement</u> | <u>Retiree Death Benefit Only</u> | <u>Total</u> |
|--|----------------------------|---|---------------------------------------|----------------------------|
| Annual OPEB cost (expense): | | | | |
| Annual required contribution | \$ 326,630 | \$ 314,239 | \$ 25,966 | \$ 666,835 |
| Interest on net OPEB obligation | 39,168 | 19,946 | 29,273 | 88,387 |
| Adjustment to annual required contribution | <u>(56,627)</u> | <u>(28,837)</u> | <u>(42,322)</u> | <u>(127,786)</u> |
| Annual OPEB cost (expense) | 309,171 | 305,348 | 12,917 | 627,436 |
| Contribution made | <u>(90,329)</u> | <u>(291,320)</u> | <u>(11,585)</u> | <u>(393,234)</u> |
| Increase in net OPEB obligation | 218,842 | 14,028 | 1,332 | 234,202 |
| Net OPEB obligation - beginning of year | 979,197 | 498,653 | 731,829 | 2,209,679 |
| Net OPEB obligation - end of year | <u>\$ 1,198,039</u> | <u>\$ 512,681</u> | <u>\$ 733,161</u> | <u>\$ 2,443,881</u> |

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(14) Other Post Employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the fiscal year ended June 30, 2013 and the two preceding years were as follows:

Schedule of Employer Contributions

| Plan | Fiscal Year Ended | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|------------------------------------|----------------------|------------------------|---------------------------|---------------------------|
| PEMHCA | 6/30/2011 | \$258,454 | 22.30% | \$790,537 |
| | 6/30/2012 | 255,431 | 26.14% | 979,197 |
| | 6/30/2013 | 309,171 | 29.22% | 1,198,039 |
| Retiree Health Costs Reimbursement | 6/30/2011 | 284,575 | 64.36% | 464,884 |
| | 6/30/2012 | 283,049 | 88.07% | 498,653 |
| | 6/30/2013 | 305,348 | 95.41% | 512,681 |
| Retiree Death Benefit Only | 6/30/2011 | 13,312 | 56.61% | 728,730 |
| | 6/30/2012 | 13,224 | 76.56% | 731,829 |
| | 6/30/2013 | 12,917 | 89.69% | 733,161 |
| Total - All Plans | 6/30/2011 | 556,341 | 44.63% | 1,984,150 |
| | 6/30/2012 | 551,704 | 59.12% | 2,209,679 |
| | 6/30/2013 | 627,436 | 62.67% | 2,443,881 |

Funded Status and Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Examples include assumptions about employee turnover, retirement, mortality, and economic assumptions regarding healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(14) Other Post Employment Benefits (Continued)

Funded Status and Progress (Continued)

Required Supplementary Information (in thousands)

| Plans | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a |
|---------------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| | | | | | | | % of Covered Payroll ((b-a)/c) |
| PEMHCA | 1/1/2009 | \$ - | \$ 2,140 | \$ 2,140 | 0.00% | \$ 23,733 | 9.0% |
| | 1/1/2011 | - | 2,484 | 2,484 | 0.00% | 24,695 | 10.1% |
| | 7/1/2012 | - | 3,202 | 3,202 | 0.00% | 24,836 | 12.9% |
| Retiree Health Costs | | | | | | | |
| Reimbursement Plan | 1/1/2009 | - | 2,357 | 2,357 | 0.00% | 23,733 | 9.9% |
| | 1/1/2011 | - | 2,541 | 2,541 | 0.00% | 24,695 | 10.3% |
| | 7/1/2012 | - | 3,009 | 3,009 | 0.00% | 24,836 | 12.1% |
| Retiree Death Benefit Only Plan | 1/1/2009 | - | 402 | 402 | 0.00% | 23,733 | 1.7% |
| | 1/1/2011 | - | 365 | 365 | 0.00% | 24,695 | 1.5% |
| | 7/1/2012 | - | 439 | 439 | 0.00% | 24,836 | 1.8% |

Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions included a 4.0% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of 1% per year to an ultimate rate of 5% after the third year. Both rates included a 4.0% inflation assumption. The UAAL is being amortized as a level dollar open period over 30 years. It is assumed the District's payroll will increase 3% per year.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(15) Deferred Compensation Plans

Retirement for Part Time Employees

The District provides pension benefits for all of its part-time employees through a defined contribution plan, in lieu of providing social security benefits. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the District's Section 457 plan. All part-time and seasonal employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan. For the year ended June 30, 2013, the District's payroll covered by the plan was \$449,059. The District made no employee contributions. Employees contributed \$33,679 (7.5% of current covered payroll) for the year ended June 30, 2013.

Deferred Compensation

All regular, full-time District employees are eligible to participate in the District's deferred compensation program pursuant to Section 457 of the Internal Revenue Code (Plan) whereby they can voluntarily contribute a portion of their earnings into a tax-deferred fund administered by the District and invested through a third party provider. Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), effective January 1, 2002, employees may contribute the lesser of 100% of includible compensation or the maximum dollar amount allowable under Internal Revenue Code Section 457 in effect for the year. The dollar amount currently in effect for calendar year 2012 is \$17,500. After 2008, the limit is being indexed to inflation in \$500 increments.

Effective January 1, 2008, for employees with one year or more of services, the District provides 100% matching up to an annual maximum of 3% of the employee's base salary after one year of service. Such employer contribution amounts are deposited into a money purchase plan pursuant to Section 401(a) of the Internal Revenue Code. During the year ended June 30, 2013, the District contributed \$528,011 to employee accounts under the 401(a) plan.

The assets in both plans are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(16) Commitments and Contingencies

Orange County Sanitation District (OCSD)

The District, with OCSD, negotiated an agreement as of July 1, 1985, which has been amended from time to time. The District agreed to annually fund payment of the District's proportionate share of OCSD's joint capital outlay revolving fund (CORF) budget requirements and certain capital improvements, calculated on an annual flow basis using the four highest months of actual flows, during the term of the agreement. The capital assets associated with this agreement are co-owned by the two agencies and provide an operational benefit to both agencies. The District's CORF payments to OCSD for the year ended June 30, 2013 totaled \$2.1 million. The District's share of the jointly funded CORF and capital improvements is included in capital assets in the District's basic financial statements. The accompanying basic financial statements reflect management's best estimate of balances pertaining to this agreement based upon information provided by OCSD. Periodically this information is subjected to further review by the performance of agreed upon procedures when the records for such review have been made available to the District. Adjustments pertaining to the accounting estimates associated with this agreement are recognized as the information for such adjustments becomes available.

The District, with OCSD, negotiated an agreement as of April 2010, providing for treatment and disposal by OCSD of District solids and the temporary lease of capacity in OCSD's solids treatment and disposal facilities through December 31, 2016 with a retroactive component for the lease of capacity back to July 1, 2008. The capacity lease for fiscal year 2012-13, estimated at \$3.1 million, is included in Sewer Services as an operating expense.

As of June 30, 2013 \$8.7 million is being held by OCSD to meet the District's share of OCSD budget requirements and is reflected as deposits in the District's basic financial statements. An additional \$38.7 million is being held by OCSD and is reflected as due from other agency in the District's basic financial statements. These funds will be applied by OCSD as payment of operation and maintenance and CORF invoices in subsequent fiscal years, and continue to earn interest at OCSD's rate of return, for the benefit of the District.

Legal Actions

The District is a defendant in various legal actions arising out of the conduct of the District's operations. Management believes that, based on current knowledge, the outcome of these matters will not have a material adverse effect on the District's financial position.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013
(Continued)

(17) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

Property, Boiler and Machinery insurance is provided by a policy with Affiliated FM Insurance Company. Property insurance includes flood insurance, but does not include earthquake insurance. General and excess liability coverage and workers compensation insurance is provided through participation in the California State Association of Counties Excess Insurance Authority via the California Public Entity Insurance Authority. Pollution and legal liability coverage for the Irvine Desalter Project is provided by a policy with Indian Harbor Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Excess coverage insurance policies cover individual general liability claims in excess of \$100,000 and workers compensation claims in excess of \$125,000. Settlements have not exceeded excess coverage for each of the past three fiscal years.

Changes in the reported liability resulted from the following:

| Fiscal Year Ended June 30 | Liability Beginning of Year | Claims and Changes in Estimates | Claim Payments | Liability End of Year |
|------------------------------|-----------------------------------|---------------------------------------|-------------------|-----------------------------|
| 2013 | \$ - | \$ 1,088 | \$ - | \$ 1,088 |

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Supplementary Information

Irvine Ranch Water District
Combining Schedule of Net Position - Water Subfunds
June 30, 2013
(in thousands)

| | <u>100/101/ 199</u> | <u>112</u> | <u>113</u> | <u>115</u> | <u>120</u> | <u>121</u> |
|---|-------------------------|--------------|---------------|--------------|---------------|---------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and investments | \$ (12,307) | \$ (2,346) | \$ 2,890 | \$ (7,307) | \$ 9,031 | \$ 6,261 |
| Receivables: | | | | | | |
| Customer accounts receivable | 8,309 | - | - | - | - | - |
| Interest receivable | 35 | (3) | 2 | (7) | 9 | 3 |
| Joint Powers Agency (JPA) interest receivable | - | - | - | - | - | - |
| Notes receivable, current portion | - | - | - | - | - | - |
| Allen-McColloch Pipeline receivable, current portion | - | - | - | - | - | 74 |
| Due from other agencies | - | - | - | - | - | - |
| Other receivables | 1,879 | 77 | 93 | 132 | - | 272 |
| Total receivables | 10,223 | 74 | 95 | 125 | 9 | 349 |
| Other Current Assets: | | | | | | |
| Inventories | 2,265 | - | - | - | - | - |
| Prepaid items and deposits | 139 | - | - | - | - | - |
| JPA investment program, current portion | - | - | - | - | - | - |
| Total other current assets | 2,404 | - | - | - | - | - |
| Total current assets | 320 | (2,272) | 2,985 | (7,182) | 9,040 | 6,610 |
| Noncurrent Assets: | | | | | | |
| Capital Assets: | | | | | | |
| Waterworks in service | 150,397 | 6,809 | 18,849 | 5,062 | 18,803 | 75,164 |
| Less accumulated depreciation | (53,407) | (679) | (1,496) | (132) | (11,519) | (21,564) |
| Total capital assets being depreciated, net | 96,990 | 6,130 | 17,353 | 4,930 | 7,284 | 53,600 |
| Land and water rights | 10,773 | 1,405 | 1,709 | 2,173 | 246 | 5,775 |
| Construction in progress | 12,185 | 1,939 | 2,577 | 1,953 | - | 4,489 |
| Total capital assets, net | 119,948 | 9,474 | 21,639 | 9,056 | 7,530 | 63,864 |
| Other Noncurrent Assets: | | | | | | |
| Debt service cash and investments | 220 | - | 772 | - | - | 12 |
| Investments - swap collateral | - | 104 | 363 | - | - | 225 |
| Unamortized debt issuance expense | 17 | 20 | 58 | - | - | 96 |
| Notes receivable, net of current portion | - | - | - | - | - | - |
| Allen-McColloch Pipeline receivable, net | - | - | - | - | - | 259 |
| JPA investment program, net of current portion | - | - | - | - | - | - |
| Real estate investments | - | - | - | - | - | - |
| Net pension asset | 7,527 | - | - | - | - | - |
| Benefits trust asset | 17,500 | - | - | - | - | - |
| Total other noncurrent assets | 25,264 | 124 | 1,193 | - | - | 592 |
| Interdistrict receivable | 42,177 | - | - | - | - | - |
| Total noncurrent assets | 187,389 | 9,598 | 22,832 | 9,056 | 7,530 | 64,456 |
| TOTAL ASSETS | 187,709 | 7,326 | 25,817 | 1,874 | 16,570 | 71,066 |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Accumulated decrease in fair value of swap agreements | - | 274 | 938 | - | - | 581 |

| <u>130</u> | <u>135</u> | <u>140</u> | <u>150</u> | <u>153/154/ 155</u> | <u>156</u> | <u>160/161</u> | <u>182/184</u> | <u>186/188/ 189</u> | <u>300</u> | <u>801-806</u> | <u>Total</u> |
|------------|------------|------------|------------|-------------------------|------------|----------------|----------------|-------------------------|------------|----------------|--------------|
| \$ 29,139 | \$ 7,552 | \$ 15,339 | \$ 63,047 | \$ (2,166) | \$ (1,864) | \$ 20,488 | \$ (917) | \$ 2,258 | \$ 3 | \$ - | \$ 129,101 |
| - | - | - | 45 | - | - | - | - | - | - | - | 8,354 |
| 25 | 9 | 14 | 55 | (1) | (2) | 18 | (2) | 2 | - | - | 157 |
| - | - | - | - | - | - | - | - | - | 9,051 | - | 9,051 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| 54 | 98 | 17 | 151 | 62 | - | 47 | 20 | 7 | - | - | 530 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| 212 | 341 | 74 | 601 | 89 | (1,067) | 142 | 102 | 34 | - | - | 2,981 |
| 291 | 448 | 105 | 852 | 150 | (1,069) | 207 | 120 | 43 | 9,051 | - | 21,073 |
| - | - | - | 1,976 | - | - | - | - | - | - | - | 4,241 |
| - | - | - | - | 106 | - | - | - | - | - | - | 245 |
| - | - | - | - | - | - | - | - | - | 310,448 | - | 310,448 |
| - | - | - | 1,976 | 106 | - | - | - | - | 310,448 | - | 314,934 |
| 29,430 | 8,000 | 15,444 | 65,875 | (1,910) | (2,933) | 20,695 | (797) | 2,301 | 319,502 | - | 465,108 |
| 71,196 | 83,206 | 56,793 | 252,831 | 17,565 | 3,750 | 71,243 | 39,848 | 18,472 | - | - | 889,988 |
| (25,293) | (41,171) | (18,966) | (57,177) | (5,164) | (629) | (21,963) | (12,824) | (6,306) | - | - | (278,290) |
| 45,903 | 42,035 | 37,827 | 195,654 | 12,401 | 3,121 | 49,280 | 27,024 | 12,166 | - | - | 611,698 |
| 4,934 | 1,504 | 1,621 | 13,575 | 1,643 | 1 | 3,465 | 3,697 | 928 | - | - | 53,449 |
| 4,546 | (59) | 1,317 | 10,175 | 1,222 | 3,106 | 2,089 | 1,522 | 512 | - | - | 47,573 |
| 55,383 | 43,480 | 40,765 | 219,404 | 15,266 | 6,228 | 54,834 | 32,243 | 13,606 | - | - | 712,720 |
| 320 | - | - | - | - | - | (65) | 162 | 199 | - | - | 1,622 |
| 205 | 185 | 440 | 4,082 | - | - | 180 | 125 | 96 | - | - | 6,007 |
| 80 | - | 58 | 482 | - | - | 89 | 38 | 37 | - | - | 977 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| 189 | 341 | 61 | 526 | 217 | - | 166 | 69 | 26 | - | - | 1,854 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | 46,811 | 46,811 |
| - | - | - | - | - | - | - | - | - | - | - | 7,527 |
| - | - | - | - | - | - | - | - | - | - | - | 17,500 |
| 794 | 526 | 559 | 5,090 | 217 | - | 370 | 394 | 358 | - | 46,811 | 82,298 |
| - | - | - | - | - | - | - | - | - | - | - | 42,177 |
| 56,177 | 44,006 | 41,324 | 224,494 | 15,483 | 6,228 | 55,204 | 32,637 | 13,964 | - | 46,811 | 837,195 |
| 85,607 | 52,006 | 56,768 | 290,369 | 13,573 | 3,295 | 75,899 | 31,840 | 16,265 | 319,502 | 46,811 | 1,302,303 |
| 529 | 476 | 1,136 | 10,528 | - | - | 465 | 322 | 247 | - | - | 15,496 |

Irvine Ranch Water District
Combining Schedule of Net Position - Water Subfunds
June 30, 2013
(in thousands)

| | <u>100/101/</u> | <u>112</u> | <u>113</u> | <u>115</u> | <u>120</u> | <u>121</u> |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | <u>199</u> | <u>112</u> | <u>113</u> | <u>115</u> | <u>120</u> | <u>121</u> |
| LIABILITIES AND NET POSITION | | | | | | |
| Current Liabilities: | | | | | | |
| Account payable and accrued expenses | \$ 10,302 | \$ 14 | \$ (16) | \$ (10) | \$ - | \$ (48) |
| Customer deposits and advance payments | 264 | - | - | - | - | - |
| Accrued interest: | | | | | | |
| General obligation bonds | - | 26 | 46 | - | - | 113 |
| JPA revenue bonds | - | - | - | - | - | - |
| Other accrued interest payable | 746 | - | - | - | 7 | 10 |
| Current portion of long-term liabilities: | | | | | | |
| General obligation bonds | - | 92 | 243 | - | - | 194 |
| Certificates of participation | 1,183 | - | - | - | 34 | 49 |
| JPA revenue bonds | - | - | - | - | - | - |
| Notes payable | - | - | - | - | - | - |
| Other long-term liabilities | 1,364 | - | - | - | - | - |
| Deferred revenue | - | 10 | 15 | 7 | - | 43 |
| Claims liability | 562 | - | - | - | - | - |
| Total current liabilities | <u>14,421</u> | <u>142</u> | <u>288</u> | <u>(3)</u> | <u>41</u> | <u>361</u> |
| Long-Term Liabilities: | | | | | | |
| General obligation bonds, net of current portion | - | 5,562 | 14,102 | - | - | 19,818 |
| Certificates of Participation, net of current portion | 1,450 | - | - | - | 41 | 60 |
| JPA revenue bonds, net of current portion | - | - | - | - | - | - |
| Notes payable, net of current portion | - | - | - | - | - | - |
| Other long-term liabilities, net of current portion | 2,021 | - | - | - | - | - |
| Deferred revenue, net of current portion | - | 186 | 260 | 153 | - | 767 |
| Claims liability, net of current portion | 526 | - | - | - | - | - |
| Net OPEB obligation | 2,444 | - | - | - | - | - |
| Swap liability | - | 274 | 937 | - | - | 581 |
| Total long-term liabilities | <u>6,441</u> | <u>6,022</u> | <u>15,299</u> | <u>153</u> | <u>41</u> | <u>21,226</u> |
| Interdistrict payable | 23,460 | - | - | - | - | - |
| TOTAL LIABILITIES | <u>44,322</u> | <u>6,164</u> | <u>15,587</u> | <u>150</u> | <u>82</u> | <u>21,587</u> |
| NET POSITION | | | | | | |
| Change in net position | (8,340) | 329 | 1,316 | 104 | 197 | (365) |
| Net position at beginning of year | 151,730 | 1,110 | 9,857 | 1,619 | 16,292 | 50,425 |
| NET POSITION AT END OF YEAR | <u>\$143,390</u> | <u>\$ 1,439</u> | <u>\$11,173</u> | <u>\$ 1,723</u> | <u>\$16,489</u> | <u>\$50,060</u> |

| <u>130</u> | <u>135</u> | <u>140</u> | <u>150</u> | <u>153/154/ 155</u> | <u>156</u> | <u>160/161</u> | <u>182/184</u> | <u>186/188/ 189</u> | <u>300</u> | <u>801-806</u> | <u>Total</u> |
|------------|------------|------------|------------|-------------------------|------------|----------------|----------------|-------------------------|------------|----------------|--------------|
| \$ 416 | \$ 905 | \$ (13) | \$ (71) | \$ (12) | \$ - | \$ (25) | \$ (18) | \$ (6) | \$ - | \$ - | \$ 11,418 |
| - | - | - | - | - | - | - | - | - | - | - | 264 |
| 93 | 8 | 13 | 266 | - | - | 58 | 47 | 12 | - | - | 682 |
| - | - | - | - | - | - | - | - | - | 2,260 | - | 2,260 |
| 35 | - | 12 | 53 | 10 | - | 24 | - | - | - | - | 897 |
| 177 | 98 | 1,261 | 3,449 | - | - | 142 | 104 | 693 | - | - | 6,453 |
| 180 | - | 44 | 170 | - | - | 56 | - | - | - | - | 1,716 |
| - | - | - | - | - | - | - | - | - | 305,284 | - | 305,284 |
| - | - | - | - | 62 | - | - | - | - | - | - | 62 |
| - | - | - | - | - | 16 | - | - | - | - | - | 1,380 |
| 33 | 59 | 12 | 297 | 5 | - | 22 | 17 | 5 | - | - | 525 |
| - | - | - | - | - | - | - | - | - | - | - | 562 |
| 934 | 1,070 | 1,329 | 4,164 | 65 | 16 | 277 | 150 | 704 | 307,544 | - | 331,503 |
| 16,642 | 4,532 | 9,080 | 121,649 | - | - | 11,362 | 8,780 | 2,432 | - | - | 213,959 |
| 220 | - | 3,648 | 20,278 | - | - | 13,378 | - | - | - | - | 39,075 |
| - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | 818 | - | - | - | - | - | - | 818 |
| - | - | - | - | 555 | 140 | - | - | - | - | - | 2,716 |
| 582 | 1,038 | 206 | 4,835 | 101 | - | 391 | 296 | 85 | - | - | 8,900 |
| - | - | - | - | - | - | - | - | - | - | - | 526 |
| - | - | - | - | - | - | - | - | - | - | - | 2,444 |
| 529 | 476 | 1,136 | 10,529 | - | - | 465 | 322 | 247 | - | - | 15,496 |
| 17,973 | 6,046 | 14,070 | 157,291 | 1,474 | 140 | 25,596 | 9,398 | 2,764 | - | - | 283,934 |
| - | - | - | - | - | - | - | - | - | - | 18,717 | 42,177 |
| 18,907 | 7,116 | 15,399 | 161,455 | 1,539 | 156 | 25,873 | 9,548 | 3,468 | 307,544 | 18,717 | 657,614 |
| 3,130 | (1,988) | 2,007 | 9,066 | (423) | 539 | 1,183 | (84) | 274 | (13,805) | (1,233) | (8,093) |
| 64,102 | 47,352 | 40,500 | 130,370 | 12,455 | 2,600 | 49,310 | 22,698 | 12,769 | 25,762 | 29,327 | 668,278 |
| \$ 67,232 | \$ 45,364 | \$ 42,507 | \$ 139,436 | \$ 12,032 | \$ 3,139 | \$ 50,493 | \$ 22,614 | \$ 13,043 | \$ 11,957 | \$ 28,094 | \$ 660,185 |

Irvine Ranch Water District
Combining Schedule of Net Position - Sewer Subfunds
June 30, 2013
(in thousands)

| | <u>200/210/ 211/299</u> | <u>212</u> | <u>213</u> | <u>215</u> | <u>220</u> | <u>221</u> |
|---|-----------------------------|----------------|---------------|----------------|---------------|---------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and investments | \$ 102,068 | \$(4,846) | \$ 6,399 | \$(1,167) | \$10,792 | \$ 8,821 |
| Receivables: | | | | | | |
| Customer accounts receivable | - | - | - | - | - | - |
| Interest receivable | 112 | (5) | 7 | (1) | 11 | 10 |
| Joint Powers Agency (JPA) interest receivable | - | - | - | - | - | - |
| Notes receivable, current portion | 12 | - | - | - | - | - |
| Allen-McColloch Pipeline receivable, current portion | - | - | - | - | - | - |
| Due from other agencies | 17,305 | 181 | 364 | - | 3,427 | (393) |
| Other receivables | 793 | 2 | 197 | - | - | 257 |
| Total receivables | <u>18,222</u> | <u>178</u> | <u>568</u> | <u>(1)</u> | <u>3,438</u> | <u>(126)</u> |
| Other Current Assets: | | | | | | |
| Inventories | - | - | - | - | - | - |
| Prepaid items and deposits | 9,233 | 78 | 192 | - | - | 603 |
| JPA investment program, current portion | - | - | - | - | - | - |
| Total other current assets | <u>9,233</u> | <u>78</u> | <u>192</u> | <u>-</u> | <u>-</u> | <u>603</u> |
| Total current assets | <u>129,523</u> | <u>(4,590)</u> | <u>7,159</u> | <u>(1,168)</u> | <u>14,230</u> | <u>9,298</u> |
| Noncurrent Assets: | | | | | | |
| Capital Assets: | | | | | | |
| Sewer plant in service | 185,374 | 12,694 | 27,224 | 475 | 29,917 | 87,362 |
| Less accumulated depreciation | (60,259) | (2,153) | (2,766) | (35) | (19,488) | (32,114) |
| Total capital assets being depreciated, net | <u>125,115</u> | <u>10,541</u> | <u>24,458</u> | <u>440</u> | <u>10,429</u> | <u>55,248</u> |
| Land and water rights | 18,649 | 949 | 398 | 57 | - | 1,962 |
| Construction in progress | 22,085 | 11,183 | 4,233 | 573 | 141 | 26,511 |
| Total capital assets, net | <u>165,849</u> | <u>22,673</u> | <u>29,089</u> | <u>1,070</u> | <u>10,570</u> | <u>83,721</u> |
| Other Noncurrent Assets: | | | | | | |
| Debt service cash and investments | - | (202) | - | - | - | - |
| Investments - swap collateral | - | 283 | 903 | - | - | 605 |
| Unamortized debt issuance expense | 20 | 56 | 29 | - | 1 | 42 |
| Notes receivable, net of current portion | 127 | - | - | - | - | - |
| Allen-McColloch Pipeline receivable, net of current portion | - | - | - | - | - | - |
| JPA investment program, net of current portion | - | - | - | - | - | - |
| Real estate investments | - | - | - | - | - | - |
| Net pension asset | 7,621 | - | - | - | - | - |
| Benefits trust asset | 17,500 | - | - | - | - | - |
| Total other noncurrent assets | <u>25,268</u> | <u>137</u> | <u>932</u> | <u>-</u> | <u>1</u> | <u>647</u> |
| Interdistrict receivable | <u>23,460</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total noncurrent assets | <u>214,577</u> | <u>22,810</u> | <u>30,021</u> | <u>1,070</u> | <u>10,571</u> | <u>84,368</u> |
| TOTAL ASSETS | <u>344,100</u> | <u>18,220</u> | <u>37,180</u> | <u>(98)</u> | <u>24,801</u> | <u>93,666</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Accumulated decrease in fair value of swap agreements | <u>-</u> | <u>731</u> | <u>2,328</u> | <u>-</u> | <u>-</u> | <u>1,560</u> |

| <u>230</u> | <u>235</u> | <u>240</u> | <u>250</u> | <u>252/253</u> | <u>256</u> | <u>260/261</u> | <u>282/284</u> | <u>286/288/ 289</u> | <u>400</u> | <u>Total</u> |
|------------|------------|------------|------------|----------------|------------|----------------|----------------|-------------------------|------------|--------------|
| \$ 10,360 | \$(19,106) | \$ 731 | \$ 22,481 | \$ (914) | \$ 159 | \$ 8,658 | \$ 4,147 | \$ (1,782) | \$ 3 | \$ 146,804 |
| - | - | - | - | - | - | - | - | - | - | - |
| 9 | (20) | 1 | 18 | (1) | - | 9 | 4 | (1) | - | 153 |
| - | - | - | - | - | - | - | - | - | 9,051 | 9,051 |
| - | - | - | - | - | - | - | - | - | - | 12 |
| - | - | - | - | - | - | - | - | - | - | - |
| 4,461 | - | - | 9,389 | - | - | 1,424 | 2,511 | - | - | 38,669 |
| 5 | 2 | - | 31 | - | - | 3 | 2 | - | - | 1,292 |
| 4,475 | (18) | 1 | 9,438 | (1) | - | 1,436 | 2,517 | (1) | 9,051 | 49,177 |
| - | - | - | - | - | - | - | - | - | - | - |
| 408 | - | 23 | 1,034 | - | - | 268 | 148 | - | - | 11,987 |
| - | - | - | - | - | - | - | - | - | 310,447 | 310,447 |
| 408 | - | 23 | 1,034 | - | - | 268 | 148 | - | 310,447 | 322,434 |
| 15,243 | (19,124) | 755 | 32,953 | (915) | 159 | 10,362 | 6,812 | (1,783) | 319,501 | 518,415 |
| 81,964 | 77,221 | 87,442 | 223,085 | 49 | - | 74,152 | 28,057 | 5,642 | - | 920,658 |
| (35,619) | (36,162) | (31,345) | (61,686) | (7) | - | (24,716) | (11,703) | (1,431) | - | (319,484) |
| 46,345 | 41,059 | 56,097 | 161,399 | 42 | - | 49,436 | 16,354 | 4,211 | - | 601,174 |
| 1,944 | 2,391 | 817 | 3,423 | - | - | 1,236 | 264 | 30 | - | 32,120 |
| 20,097 | 710 | 5,620 | 50,029 | 994 | 6 | 12,692 | 4,320 | 846 | - | 160,040 |
| 68,386 | 44,160 | 62,534 | 214,851 | 1,036 | 6 | 63,364 | 20,938 | 5,087 | - | 793,334 |
| 6,822 | - | - | 13,618 | - | - | 5,312 | 1,911 | - | - | 27,461 |
| 689 | 112 | 1,089 | 4,367 | - | - | 347 | 103 | 31 | - | 8,529 |
| 171 | - | 113 | 622 | - | - | 131 | 46 | - | - | 1,231 |
| - | - | - | - | - | - | - | - | - | - | 127 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | 7,621 |
| - | - | - | - | - | - | - | - | - | - | 17,500 |
| 7,682 | 112 | 1,202 | 18,607 | - | - | 5,790 | 2,060 | 31 | - | 62,469 |
| - | - | - | - | - | - | - | - | - | - | 23,460 |
| 76,068 | 44,272 | 63,736 | 233,458 | 1,036 | 6 | 69,154 | 22,998 | 5,118 | - | 879,263 |
| 91,311 | 25,148 | 64,491 | 266,411 | 121 | 165 | 79,516 | 29,810 | 3,335 | 319,501 | 1,397,678 |
| 1,777 | 289 | 2,808 | 11,263 | - | - | 896 | 266 | 79 | - | 21,997 |

Irvine Ranch Water District
Combining Schedule of Net Position - Sewer Subfunds
June 30, 2013
(in thousands)

| | <u>200/210/ 211/299</u> | <u>212</u> | <u>213</u> | <u>215</u> | <u>220</u> | <u>221</u> |
|---|-----------------------------|-----------------|------------------|-----------------|------------------|------------------|
| LIABILITIES AND NET POSITION | | | | | | |
| Current Liabilities: | | | | | | |
| Account payable and accrued expenses | \$ 2,596 | \$ 577 | \$ 123 | \$ 26 | \$ (41) | \$ 1,248 |
| Customer deposits and advance payments | - | - | - | - | - | - |
| Accrued interest: | | | | | | |
| General obligation bonds | - | 72 | 29 | - | - | 68 |
| JPA revenue bonds | - | - | - | - | - | - |
| Other accrued interest payable | 978 | - | - | - | 18 | 44 |
| Current portion of long-term liabilities: | | | | | | |
| General obligation bonds | - | 244 | 574 | - | - | 520 |
| Certificates of participation | 1,360 | - | - | - | 89 | 223 |
| JPA revenue bonds | - | - | - | - | - | - |
| Notes payable | 6 | 24 | 15 | - | - | 46 |
| Other long-term liabilities | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - |
| Claims liability | - | - | - | - | - | - |
| Total current liabilities | <u>4,940</u> | <u>917</u> | <u>741</u> | <u>26</u> | <u>66</u> | <u>2,149</u> |
| Long-Term Liabilities: | | | | | | |
| General obligation bonds, net of current portion | - | 15,218 | 21,941 | - | - | 20,460 |
| Certificates of Participation, net of current portion | 1,665 | - | - | - | 109 | 273 |
| JPA revenue bonds, net of current portion | - | - | - | - | - | - |
| Notes payable, net of current portion | 35 | 147 | 90 | - | - | 274 |
| Other long-term liabilities, net of current portion | - | - | - | - | - | - |
| Deferred revenue, net of current portion | - | - | - | - | - | - |
| Claims liability, net of current portion | - | - | - | - | - | - |
| Net OPEB obligation | - | - | - | - | - | - |
| Swap liability | - | 731 | 2,328 | - | - | 1,560 |
| Total long-term liabilities | <u>1,700</u> | <u>16,096</u> | <u>24,359</u> | <u>-</u> | <u>109</u> | <u>22,567</u> |
| Interdistrict payable | <u>23,460</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>30,100</u> | <u>17,013</u> | <u>25,100</u> | <u>26</u> | <u>175</u> | <u>24,716</u> |
| NET POSITION | | | | | | |
| Change in net position | 34,426 | 227 | 790 | (1) | (605) | (475) |
| Net position at beginning of year | <u>279,575</u> | <u>1,712</u> | <u>13,619</u> | <u>(123)</u> | <u>25,235</u> | <u>70,982</u> |
| NET POSITION AT END OF YEAR | <u>\$ 314,001</u> | <u>\$ 1,939</u> | <u>\$ 14,409</u> | <u>\$ (124)</u> | <u>\$ 24,630</u> | <u>\$ 70,507</u> |

| <u>230</u> | <u>235</u> | <u>240</u> | <u>250</u> | <u>252/253</u> | <u>256</u> | <u>260/261</u> | <u>282/284</u> | <u>286/288/ 289</u> | <u>400</u> | <u>Total</u> |
|------------|------------|------------|------------|----------------|------------|----------------|----------------|-------------------------|------------|--------------|
| \$ 2,056 | \$ (22) | \$ 179 | \$ 1,965 | \$ 44 | \$ - | \$ 607 | \$ 185 | \$ 453 | \$ - | \$ 9,996 |
| - | - | - | - | - | - | - | - | - | - | - |
| 181 | 5 | 32 | 420 | - | - | 138 | 55 | 1 | - | 1,001 |
| - | - | - | - | - | - | - | - | - | 2,259 | 2,259 |
| 336 | - | 3 | 78 | - | - | 30 | - | - | - | 1,487 |
| 757 | 59 | 2,320 | 4,118 | - | - | 285 | 89 | 27 | - | 8,993 |
| 1,703 | - | (5) | 301 | - | - | 130 | - | - | - | 3,801 |
| - | - | - | - | - | - | - | - | - | 305,284 | 305,284 |
| 34 | - | 20 | 27 | - | - | 22 | - | - | - | 194 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| 5,067 | 42 | 2,549 | 6,909 | 44 | - | 1,212 | 329 | 481 | 307,543 | 333,015 |
| 37,468 | 2,726 | 24,121 | 147,291 | - | - | 25,480 | 9,492 | 742 | - | 304,939 |
| 2,086 | - | 4,396 | 20,411 | - | - | 5,166 | - | - | - | 34,106 |
| - | - | - | - | - | - | - | - | - | - | - |
| 206 | - | 120 | 160 | - | - | 134 | - | - | - | 1,166 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| 1,777 | 289 | 2,808 | 11,263 | - | - | 896 | 266 | 79 | - | 21,997 |
| 41,537 | 3,015 | 31,445 | 179,125 | - | - | 31,676 | 9,758 | 821 | - | 362,208 |
| - | - | - | - | - | - | - | - | - | - | 23,460 |
| 46,604 | 3,057 | 33,994 | 186,034 | 44 | - | 32,888 | 10,087 | 1,302 | 307,543 | 718,683 |
| 1,594 | (1,249) | (439) | 2,411 | 26 | (8) | (594) | (914) | (73) | (13,805) | 21,311 |
| 44,893 | 23,631 | 33,740 | 89,229 | 50 | 172 | 48,117 | 20,903 | 2,184 | 25,762 | 679,681 |
| \$ 46,487 | \$ 22,382 | \$ 33,301 | \$ 91,640 | \$ 76 | \$ 164 | \$ 47,523 | \$ 19,989 | \$ 2,111 | \$ 11,957 | \$ 700,992 |

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture not described elsewhere in this Remarketing Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture for a full and complete statement of its provisions. The headings or the titles used herein are solely for convenience of reference.

Capitalized terms used in this summary and not defined herein shall have the meanings given such terms elsewhere in this Remarketing Statement or the Indenture.

DEFINITIONS

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

“Act” means the California Water District Law, Division 13 of the Water Code, as amended from time to time.

“Adjusted Interest Rate” means, with respect to the interest rate to be borne by the Bonds during any Adjustment Period, the annual interest rate determined on the applicable Rate Determination Date in accordance with the Indenture.

“Adjustment Period” means the period of time that any Adjusted Interest Rate remains in effect, which period

- (a) with respect to the Daily Mode, will be the period consisting of one day;
- (b) with respect to a Flexible Rate Bond or a Term Rate Bond, will be the period from and including the Rate Determination Date for such Bond with respect to such Adjustment Period to and including the day preceding the following Rate Determination Date for such Bond as established by the District pursuant to the Indenture; provided, however, that the day after the last day of any such Adjustment Period will be a Business Day and each such Adjustment Period will be at least one day;
- (c) with respect to the Weekly Mode, initially will be the period from and including the first day that the Bonds become subject to the Weekly Mode to and including the following Wednesday and thereafter commencing on each Thursday to and including Wednesday of the following week;
- (d) with respect to the Monthly Mode, initially will be the period from and including the first day that the Bonds become subject to the Monthly Mode to but not including the first day of the following calendar month and thereafter will be the period from and including the first day of each calendar month to but not including the first day of the following calendar month;
- (e) with respect to the Semi-Annual Mode, initially will be the period from and including the first day that the Bonds become subject to the Semi-Annual Mode to but not including the next April 1 or October 1, whichever first occurs, and thereafter will be the period from and including such April 1 or October 1, as applicable, to but not including the next succeeding April 1 or October 1, whichever first occurs;
- (f) with respect to the Annual Mode, initially will be the period from and including the first day that the Bonds become subject to the Annual Mode to but not including the next April 1 or October 1,

whichever last occurs and thereafter will be the period from and including such April 1 or October 1, as applicable, to but not including the next succeeding April 1 or October 1, whichever last occurs;

(g) with respect to the Fixed Rate Mode, will be the period from and including the Conversion Date to but not including the Maturity Date.

No Adjustment Period will extend beyond the day preceding the Maturity Date.

“Alternate Rate” will mean, on any Rate Determination Date, for any Mode other than the Index Mode, a rate per annum equal to 110% of SIFMA.

“Annual Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (f) of the definition of Adjustment Period.

“Authorized Denominations” means (i) with respect to the Term Rate Mode and the Fixed Rate Mode, \$5,000 and any integral multiple thereof, and (ii) with respect to the Index Mode, the Flexible Rate Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, the Semi-Annual Mode and the Annual Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

“Bank” means LandesBank Hessen-Thüringen Girozentrale, New York Branch.

“Bond Counsel” means any firm of nationally recognized municipal bond attorneys selected by the District and experienced in the issuance of municipal bonds and the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Depository” means a trust company or other financial institution which is registered as a “clearing agency” pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, or is otherwise qualified under applicable law to act as securities custodian for Bonds on behalf of the Participants and the beneficial owners of interests in such Bonds.

“Bond Payment Fund” means the fund so defined and created in the Indenture.

“Bond Proceeds Fund” means the fund established by the Trustee to accept the proceeds of the sale of the Bonds from the initial purchaser thereof.

“Bond Register” means books for the registration of the ownership, transfer or exchange of the Bonds required to be kept by the Trustee at its Corporate Trust Office pursuant to the provisions of the Indenture.

“Bonds” means the bonds that are authenticated and delivered by the Trustee under and pursuant to the Indenture, including any bonds issued in exchange or in lieu thereof.

“Business Day” means a day that is not a Saturday or Sunday or a day on which the banks or trust companies in New York, New York, or in Los Angeles, California, or the city in which the office of the Liquidity Provider where drawings under the Liquidity Facility are to be made, are not authorized or required by law or executive order to remain closed and on which the New York Stock Exchange is not closed.

“Cede & Co.” means Cede & Co., the nominee of DTC as Bond Depository for any Bonds, and any successor nominee of DTC as such Bond Depository.

“Change in Mode” means any change pursuant to the Indenture from one Mode to another Mode.

“Closing Date” means April 15, 2011.

“Code” means the Internal Revenue Code of 1986.

“Conversion Date” means the date on which the Bonds begin to bear interest at the Fixed Interest Rate.

“Corporate Trust Office” means with respect to the Trustee its corporate trust office located at 700 South Flower Street, Suite 500, Los Angeles, California 90017, and solely for purposes of the presentation of Bonds for payment, transfer or exchange the corporate trust operations office designated by the Trustee. The Trustee may hereafter designate alternate Corporate Trust Offices and any successor Trustee will designate its Corporate Trust Office by written notice delivered to the Notice Parties.

“Costs of Issuance Fund” means the fund so defined and created in the Indenture.

“Credit Support Agreement” means, (i) with respect to any Credit Support Instrument, other than a Revenue Enhancement Agreement, the agreement or agreements (which may be the Credit Support Instrument itself) between the District and the obligor under such Credit Support Instrument, as originally executed or as it may from time to time be replaced, supplemented or amended, providing for the reimbursement of payments under such Credit Support Instrument, and the interest thereon, and includes any subsequent agreement pursuant to which a substitute Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document and (ii) with respect to any Revenue Enhancement Agreement, the Revenue Enhancement Agreement itself, together with any related pledge agreement, security agreement or other security document.

“Credit Support Instrument” means any of: (i) a policy of insurance, a letter of credit, a line of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement providing credit or liquidity support with respect to the payment of interest, principal or purchase price of any Parity Obligations; (ii) a Prior Reimbursement Agreement; or (iii) a policy of insurance, a letter of credit, a line of credit, a standby bond purchase agreement or other credit arrangement, including a Revenue Enhancement Agreement, providing credit or liquidity support with respect to the payment of interest, principal or purchase price of any General Obligations Bonds.

“Daily Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (a) of the definition of Adjustment Period.

“Debt Service” means, for purposes of the Indenture with respect to any Outstanding Parity Obligations and with respect to any additional Parity Obligations to be issued, and for any Fiscal Year, the sum of: (i) the interest on such Parity Obligations payable during such Fiscal Year (except to the extent that such interest is capitalized); (ii) the principal of such Parity Obligations maturing (including by declared acceleration of maturity) during such Fiscal Year; and (iii) the principal of and premium, if any, of such Parity Obligations coming due during such Fiscal Year by virtue of the mandatory redemption or prepayment of such Parity Obligations whether from mandatory sinking fund account payments or otherwise;

but minus the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for such Parity Obligations;

provided that, as to any such Parity Obligations (other than Credit Support Instruments) bearing or comprising interest at other than a fixed rate, for purposes of calculating Debt Service on such Parity Obligations, such Parity Obligations shall be assumed to bear interest at a fixed rate equal to the SIFMA Index as of any date selected by the District which is within 30 days of the date of calculation;

and provided further that, as to any such Parity Obligation relating to an advance under a Credit Support Instrument and bearing or comprising interest at other than a fixed rate, for purposes of calculating Debt Service on such Parity Obligation, such Parity Obligation shall be assumed to bear interest at a fixed rate equal to the rate applicable to such advance as of the date of calculation;

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

and provided further that, as to any such Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service;

and provided further that if interest on such Parity Obligations is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Parity Obligations shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America;

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;

and provided further that if principal and interest on such Parity Obligations is secured by a Revenue Enhancement Agreement, then the principal and interest payments with respect to such Parity Obligations shall be excluded by the amount of such principal and interest reasonably anticipated to be paid from (i) *ad valorem* assessments on taxable land levied by the District pursuant to the Act with respect to such Parity Obligations; (ii) water and sewer charges which in the discretion of the Board of Directors of the District are fixed and collected pursuant to the Act in lieu of *ad valorem* assessments with respect to such Parity Obligations; and (iii) proceeds from the sale of property pursuant to the Act for the enforcement of delinquent assessments with respect to such Parity Obligations, in each case pursuant to such Revenue Enhancement Agreement.

“District” means the Irvine Ranch Water District, a California water district.

“District Purchase Account” means the account so defined and created in the Indenture.

“District Representative” means a person at the time designated to act on behalf of the District for purposes of the Indenture by a certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the District by any of its officers. The certificate may designate an alternate or alternates.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns. References in the Indenture to DTC will include any nominee of DTC in whose name any Bonds are then registered.

“Electronic Notice” means notice through telecopy, telegraph, telex, facsimile transmission, internet, e-mail or other electronic means of communication.

“Event of Default” means any occurrence or event specified in and defined by the Indenture.

“Expiration Date” means, with respect to a Liquidity Facility, the stated expiration date of such Liquidity Facility, as it may be extended from time to time as provided in such Liquidity Facility, or any earlier date on which such Liquidity Facility will terminate, expire or be cancelled.

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an unqualified (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds) Opinion of Bond Counsel to the effect that such action is permitted under the Act and the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of the State.

“FINRA” means the Financial Industry Regulatory Authority, its successors and assigns.

“First Supplemental Indenture” means the First Supplemental Indenture of Trust, dated as of February 1, 2014, by and between the Irvine Ranch Water District and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the Bonds.

“Fitch” means Fitch Ratings, and its successors or assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the services of a municipal securities rating agency, then “Fitch” will be deemed to refer to any other nationally recognized municipal securities rating agency rating the Bonds at the request of the District.

“Fixed Interest Rate” means, with respect to a Bond, the rate to be borne by such Bond on and after the Conversion Date, which rate will be determined in accordance with the Indenture.

“Fixed Rate Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (g) of the definition of Adjustment Period.

“Fixed Rate Terms Certificate” means the certificate delivered by the District to the Trustee in connection with a conversion of the Bonds to the Fixed Rate Mode in accordance with the Indenture.

“Flexible Rate” means the Adjusted Interest Rate for a Flexible Rate Bond for the applicable Adjustment Period determined pursuant to the Indenture.

“Flexible Rate Bonds” means the Bonds during the Flexible Rate Mode.

“Flexible Rate Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is equal to or less than one year.

“Funds” will mean, collectively, the Purchase Fund, the General Obligation Bond Fund, the Bond Payment Fund, the Costs of Issuance Fund, the Bond Proceeds Fund and the Rebate Fund created pursuant to the Indenture.

“General Obligation Bond Fund” means the fund so defined and created in the Indenture.

“General Obligation Bonds” means bonds issued by the District pursuant to the Act and payable from *ad valorem* assessments.

“Government Code” means the California Government Code, as amended.

“Government Contracts” means, collectively: (i) Agreement No. 7-805-550-0, the Loan Contract, dated February 1, 1988, between the State Water Resources Control Board and the District under the Water Reclamation Loan Program, Clean Water Bond Act of 1984, as amended and supplemented; (ii) Loan Contract No. 0-804-550-0, Water Reclamation Loan Program, Clean Water Bond Act of 1984, Loan Contract, dated June 1, 1990, between the State Water Resources Control Board and the District, as amended and supplemented and (iii) the 1996 Amended and Restated Allen-McColloch Pipeline Sublease, dated as of March 1, 1996, by and between the Municipal Water District of Orange County and the Los Alisos Water District (with respect to whose rights and obligations the District is the legal successor).

“Government Obligations” means and includes any of the following securities, if and to the extent the same are non-callable and not subject to redemption at the option of the issuer, at the time legal for investment of the District’s funds, as determined by the District: direct obligations of, or obligations the full and timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and including a receipt, certificate or any other evidence of a direct ownership interest in future payments of an obligation of, or unconditionally guaranteed by, the United States of America, or in specified portions thereof held by a custodian in safekeeping for the holders of such receipt, certificate or any other evidence of ownership (which may consist of specified portions of interest thereon) which is rated or assessed in the highest rating category of each Rating Agency, but excluding any share or interest in any unitary investment trust or mutual fund unless such unitary investment trust or mutual fund is rated or assessed in the highest rating category of each Rating Agency.

“Improvement Districts” means Improvement District No. 113, Improvement District No. 125, Improvement District No. 213, and Improvement District No. 225 of the District, or any successor improvement district to any thereof.

“Included Amount” for an Improvement District means the principal amount of Outstanding Bonds allocable to such Improvement District. The Included Amounts are initially as set forth in the Indenture and may be adjusted according to the terms of the Indenture.

“Included Percentage” means, as of any time and with respect to an Improvement District, a fraction (i) the numerator of which is equal to the Included Amount for such Improvement District as of such time and (ii) the denominator of which is equal to the principal amount of all Outstanding Bonds as of such time, calculated to the fourth decimal place; provided, however, that on any date, the total of the Included Percentages for all Improvement Districts having Included Amounts of Outstanding Bonds on such date will equal 100%. The Included Percentages are initially as set forth in the Indenture and may be adjusted according to the terms of the Indenture.

“Indenture” means the Indenture of Trust, dated as of April 1, 2011, by and between the District and the Trustee, as it may from time to time be modified, supplemented or amended pursuant to the provisions of the Indenture.

“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, appointed and paid by the District, and who, or each of whom: (A) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the District; (B) does not have a substantial financial interest, direct or indirect, in the operations of the District; and (C) is not connected with the District as a director, officer or employee of the District, but who may be regularly retained to audit the accounting records of and make reports thereon to the District.

“Information Services” means such services providing information with respect to called bonds as the District may designate in a certificate of the District Representative delivered to the Trustee.

“Interest Account” means the account so defined and created in the Indenture.

“Interest Payment Date” means (i) with respect to each Bond in the Index Mode, the Daily Mode, the Weekly Mode and the Monthly Mode, the first Business Day of each calendar month, commencing May 2, 2011; (ii) each Mandatory Purchase Date (iii) each Unscheduled Mandatory Tender Date on which all Outstanding Bonds are purchased as provided in the Indenture; (iv) each Scheduled Mandatory Tender Date; (v) with respect to each Bond in the Flexible Rate Mode, the first day of the next succeeding Adjustment Period for such Bond; (vi) with respect to each Bond in the Term Rate Mode, each April 1 and October 1 during the applicable Adjustment Period for such Bond and the first day of the next succeeding Adjustment Period for such Bond; and (vii) with respect to the Semi-Annual Mode, the Annual Mode and the Fixed Rate Mode, each April 1 and October 1.

“Investment Income” means: (a) the net income and net earnings of the District from the investment of its money, including without limitation investments in securities and in real estate (whether by mortgage, ownership, through interests in partnerships or joint ventures, or otherwise); and (b) interest and other investment income received by the District from the Irvine Ranch Water District Joint Powers Authority.

“Liquidity Facility” means any letter of credit, line of credit, standby purchase agreement or other instrument which provides for the payment of the Purchase Price of the Bonds and is provided to the Trustee pursuant to the Indenture.

“Liquidity Facility Interest Amount” means the amount of the Liquidity Facility which may be drawn upon to pay interest on the Bonds, which (i) during the Index Mode, the Daily Mode and the Weekly Mode will be an amount equal to the interest to accrue on the Outstanding Bonds over a 34 day period in such Modes calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed, and (ii) during any other Mode will be an amount acceptable to the Rating Agencies as evidenced by Rating Confirmation Notices delivered to the Trustee.

“Liquidity Facility Purchase Account” means the account so defined and created in the Indenture.

“Liquidity Provider” means, as of any time, the issuer of a Liquidity Facility then in effect with respect to the Bonds, if any, and its successors and assigns.

“Liquidity Provider Interest Rate” means the interest rate payable on Liquidity Provider-Owned Bonds, but not in excess of the rate determined pursuant to clause (i) of the definition of “Maximum Rate.”

“Liquidity Provider-Owned Bonds” means any Bonds registered in the name of the Liquidity Provider pursuant to the Indenture.

“Mail” means mailed by first-class United States mail, postage prepaid.

“Mandatory Purchase Date” means: (i) with respect to Flexible Rate Bonds and Term Rate Bonds, the first Business Day following the end of each Adjustment Period applicable to such Bonds, (ii) the date of any Change in Mode (other than a Change in Mode from the Daily Mode to the Weekly Mode and vice versa) set forth in a Notice of Change in Mode whether or not such Change in Mode actually occurs, (iii) any Substitution Date, (iv) the fifth Business Day prior to an Expiration Date, (v) unless the principal of and accrued interest on the Outstanding Bonds are declared to be due and payable immediately pursuant to the Indenture, a date which will be the eighth day (or if such day is not a Business Day, the next succeeding Business Day) after the Trustee’s receipt of written notice from the Liquidity Provider that the Liquidity Provider is terminating the Liquidity Facility by reason of occurrence of an event of default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Bonds.

“Maturity Date” means October 1, 2037.

“Maximum Rate” means the lesser of (i) the maximum rate permitted on that day for the Bonds by Section 53541 of the California Government Code or any other applicable provisions of law, except as permitted by Section 36447.10 of the Water Code, or (ii) the rate used to calculate the size of the portion of the Liquidity Facility which is available to be drawn upon for the payment of interest on the Bonds; provided, however, that, if no Liquidity Facility is then in effect, the Maximum Rate will be the rate determined pursuant to clause (i) of this definition.

“Mode” means the Index Mode, the Flexible Rate Mode, the Term Rate Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, the Semi-Annual Mode, the Annual Mode or the Fixed Rate Mode.

“Monthly Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (d) of the definition of Adjustment Period.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the District and approved by the Liquidity Provider (which will not be under any liability by reason of such approval).

“Notice Parties” means the District, the Trustee, the Remarketing Agent and the Liquidity Provider.

“Notice of Change in Mode” means the notice required to be delivered by the District to the other Notice Parties prior to any Change in Mode pursuant to the Indenture.

“Operating Systems” mean all property and rights in property owned by the District, and used by the District in providing water, sewer, surface runoff and/or reclaimed water services and any other utilities and services which the District may provide, including all facilities included in its water, sewer and reclaimed water systems, rights to water and capacity and other rights or interests in water production, transmission, treatment and disposal facilities, as now existing or hereafter acquired or constructed and as the same may be modified and expanded, including all replacements thereof and improvements thereto.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used as of a particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds delivered under the Indenture except --

- (i) Bonds cancelled by the Trustee or surrendered to the Trustee or for cancellation;
- (ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; and
- (iii) Bonds in lieu of or in substitution for which replacement Bonds will have been executed by the District and delivered by the Trustee under the Indenture.

Notwithstanding the foregoing, Bonds registered in the name of the Liquidity Provider or its nominee pursuant to the Indenture will remain Outstanding in the hands of the Liquidity Provider until the Liquidity Provider is paid all amounts due on such Bonds. Furthermore, Bonds, the principal of which was paid with a draw on the Liquidity Facility, which draw has not been reimbursed, will remain Outstanding until the Liquidity Provider is reimbursed in full for such draw.

“Owner” means the registered owner of a Bond, including the Bond Depository for the Bonds, if any, or its nominee.

“Participant” means an entity which is recognized as a participant in the book-entry system of maintaining records with respect to the Bonds by the Bond Depository.

“Permitted Investments” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the District’s funds, as determined by the District:

- (i) Government Obligations;
- (ii) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, or the principal of and interest on which are unconditionally guaranteed, by the Federal National Mortgage Association, the Bank for Cooperatives, or the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Federal Land Banks, the Government National Mortgage Association or any other agency or instrumentality of or corporation wholly owned by the United States of America when such obligations are backed by the full faith and credit of the United States of America;
- (iii) Obligations of any state of the United States of America or any political subdivision thereof, which at the time of investment are rated “A1/P-1” or higher by Moody’s and “A+” or higher by S&P or Fitch; or which are rated by Moody’s “VMIG 1” or better and by S&P “A-1” or better and by Fitch “F1” or better, with respect to commercial paper, or “MIG 1,” “SP-1+” or “F1+,” respectively, with respect to municipal notes;

(iv) Bank time deposits evidenced by certificates of deposit, and bankers' acceptances, issued by any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corp.; provided that (a) such bank, trust company, or national banking association is rated "A1/P-1" or better by Moody's and "A+" or better by S&P or Fitch, or else that all of the securities acquired pursuant to this subsection (iv) are for amounts of \$100,000 or less, and with maturities of no longer than 365 days; and, (b) provided that (x) the aggregate of such bank time deposits and bankers' acceptances issued by any bank, trust company or banking association does not exceed at any one time 10% of the aggregate of the capital stock, surplus and undivided profits of such bank, trust company or banking association and that such capital stock, surplus and undivided profits will not be less than \$25,000,000, or else that (y) such deposits are fully and continuously secured by a valid and perfected prior security interest in obligations described in paragraph (i) or (ii) of this definition;

(v) Repurchase agreements with any bank, trust company or national banking association insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corp.; provided that such bank, trust company or national banking association is rated "A1" or better by Moody's and "A+" or better by S&P or Fitch, or with any government bond dealer recognized as a primary dealer by the Federal Reserve Bank of New York, which agreements are fully and continuously secured by a valid and perfected priority security interest in obligations described in paragraph (i) or (ii) of this definition;

(vi) Investment agreements with any corporation, including banking or financial institutions, the long term corporate debt of which is rated, at the time of investment, "A1" or better by Moody's and "A+" or better by S&P or Fitch;

(vii) Guaranteed investment contracts or similar funding agreements issued by insurance companies, the Long Term corporate debt of which, at the time of investment, is rated "A1" or better by Moody's and "A+" or better by S&P or Fitch;

(viii) Corporate commercial paper rated "MIG 1" or better by Moody's and "A-1" or better by S&P and "F1" or better by Fitch at the time of investment;

(ix) Shares or interests in taxable government money market portfolios (including any money market mutual funds of the Trustee) restricted to obligations with maturities of one year or less issued by, or the payment of principal and interest with respect to which is guaranteed by, the United States of America, and which are rated "Aa" or better by Moody's and "AAm" or better by S&P or Fitch at the time of investment;

(x) Interests in money market portfolios, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services, exempt from federal income taxation and having assets in excess of \$1,000,000,000;

(xi) Investments in the Local Agency Investment Fund created pursuant to Section 16429.1 of the Government Code; and

(xii) Any other investment that is legal for the investment of the District's funds or, to the extent that any moneys under the Indenture are held by the Trustee or a fiscal agent and pledged to the payment or security of the Bonds, any other investments which the District deems to be prudent investments and in which the District directs the Trustee or fiscal agent to invest, provided that such investments are either: (i) rated "A"/"A" or better, by at least two of S&P, Fitch and Moody's at the time of such investment; or (ii) are issued by an entity the corporate debt of which is rated "A"/"A" or better,

by at least two of S&P, Fitch and Moody's; or (iii) are issued by an insurance company with a claims paying rating of "Aa" or better by Moody's.

"Principal Account" means the account so defined and created in the Indenture.

"Principal Payment Date" means, prior to and on the Conversion Date, October 1 of each of the years specified in the Indenture and, after the Conversion Date, each Serial Maturity Date and October 1 of each year from the year next succeeding the year containing the last Serial Maturity Date, as determined in accordance with the Indenture through the Maturity Date, inclusive.

"Prior Installment Contract" means the Agreement for Acquisition and Construction, dated as of November 1, 1990, by and among County Sanitation District No. 1 of Orange County, California, County Sanitation District No. 2 of Orange County, California, County Sanitation District No. 3 of Orange County, California, County Sanitation District No. 5 of Orange County, California, County Sanitation District No. 6 of Orange County, California, County Sanitation District No. 7 of Orange County, California, County Sanitation District No. 11 of Orange County, California, County Sanitation District No. 13 of Orange County, California, County Sanitation District No. 14 of Orange County, California, as amended and supplemented.

"Prior Reimbursement Agreements" means collectively: (i) the three Reimbursement Agreements, each dated as of May 1, 1996, as amended as of May 1, 2005, between the District and LandesBank Hessen-Thüringen Girozentrale, acting through its New York Branch; (ii) the Fourth Amended and Restated Reimbursement Agreement, dated as of April 30, 2009, between the District and Bank of America, N.A.; (iii) the two Reimbursement Agreements, each dated as of April 1, 2011, between the District and Sumitomo Mitsui Banking Corporation; (iv) the Reimbursement Agreement, dated as of June 1, 2009, between the District and U.S. Bank National Association; (v) the Reimbursement Agreement, dated as of June 1, 2009, between the District and Bank of America, N.A. and (vi) the two Reimbursement Agreements, each dated as of May 1, 2010, between the District and Bank of America, N.A.

"Purchase Date" means (i) during the Daily Mode and the Weekly Mode, any Business Day (provided that the Tender Notice has been delivered by the Tender Deadline), and (ii) during the Monthly Mode, the Semi-Annual Mode and the Annual Mode, the first Business Day following the end of the applicable Adjustment Period.

"Purchase Fund" means the fund so defined and created in the Indenture.

"Purchase Price" means: (i) with respect to any Bonds to be purchased on any Purchase Date, Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date which is not an Interest Payment Date, an amount equal to 100% of the principal amount of any Bonds purchased on such date, plus unpaid accrued interest, if any, to such date and (ii) with respect to any Bonds to be purchased on any Purchase Date, Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date which is an Interest Payment Date, an amount equal to 100% of the principal amount of any Bonds purchased on such date.

"Rate Determination Date" means, with respect to any Adjusted Interest Rate for any Adjustment Period, the date on which such Adjusted Interest Rate will be determined, which, (i) in the case of the Flexible Rate Mode and the Term Rate Mode, will be the first day of such Adjustment Period, (ii) in the case of the Daily Mode will be each Business Day, (iii) in the case of the Weekly Mode, will be each Wednesday or, if Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday, (iv) in the case of the Monthly

Mode, the Semi-Annual Mode or the Annual Mode, will be the Business Day prior to the first day of such Adjustment Period and (v) in the case of the Fixed Rate Mode, will be a date determined by the Remarketing Agent which will be at least one Business Day but no more than 10 Business Days prior to the Conversion Date.

“Rating Agency” means Moody’s, S&P and Fitch, to the extent such entity is then rating the Bonds, and any other nationally recognized rating agency then rating the Bonds.

“Rating Confirmation Notice” means a notice from each Rating Agency confirming that the rating on the Bonds will not be lowered or withdrawn as a result of the action proposed to be taken.

“Rebate Fund” means the fund so defined and created in the Indenture.

“Rebate Requirement” means the Rebate Requirement as defined in the Tax Certificate.

“Record Date” means (i) with respect to Flexible Rate Bonds and Term Rate Bonds if the Interest Payment Date is a Purchase Date or a Mandatory Purchase Date, at 5:00 p.m. on the day prior to such Interest Payment Date, (ii) with respect to Flexible Rate Bonds and Term Rate Bonds if the Interest Payment Date is an April 1 or October 1 which is not a Purchase Date or Mandatory Purchase Date, at 5:00 p.m. on the 15th day of the calendar month preceding such Interest Payment Date, (iii) with respect to Bonds in the Index Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, or with respect to Flexible Rate Bonds, Term Rate Bonds if the Interest Payment Date is a Purchase Date or a Mandatory Purchase Date, at 5:00 p.m. on the day prior to each Interest Payment Date, and (iv) with respect to Bonds in the Semi-Annual Mode, the Annual Mode or the Fixed Rate Mode, at 5:00 p.m. on the 15th day of the calendar month preceding each Interest Payment Date.

“Redemption Account” means the account so defined and created in the Indenture.

“Redemption Date” means the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

“Redemption Price” means, with respect to any Bonds to be redeemed pursuant to a provision of the Indenture, the amount specified in such provision as the Redemption Price for Bonds redeemed pursuant thereto.

“Refunded Bonds” means the \$100,355,000 outstanding Bonds of Irvine Ranch Water District Consolidated Refunding Series 2008B.

“Reimbursement Agreement” means the reimbursement agreement, or corresponding agreement, if any, executed and delivered in connection with a Liquidity Facility.

“Remarketing Agent” means Goldman, Sachs & Co., or any other investment banking firm which may at any time be substituted in its place as provided in the Indenture.

“Remarketing Agreement” means that certain Remarketing Agreement relating to the Bonds, dated as of April 1, 2011, by and between the District and the initial Remarketing Agent or any similar agreement between the District and any successor Remarketing Agent.

“Remarketing Proceeds Account” means the account so defined and created in the Indenture.

“Representation Letter” means the letter from the District and the Trustee to, or other instrument or agreement among the District and the Trustee with, the then current Bond Depository for the Bonds in which the District and the Trustee, among other things, make certain representations to, and agreements with, such Bond Depository with respect to the Bonds, the purchase and payment thereof, and delivery of notices with respect thereto.

“Responsible Officer” means, when used with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other office of the Trustee within the Corporate Trust Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Corporate Trust Office because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Indenture.

“Revenue Fund” means, collectively, funds into which Utility Rates and Charges and Investment Income are deposited and held including any successor funds and accounts.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may from time to time be amended and supplemented.

“Revenue Enhancement Agreement” means an agreement between the District and the trustee for an issue of General Obligation Bonds, pursuant to which the District agrees to pay principal, redemption price, purchase price of and/or interest on such General Obligation Bonds from Net Revenues on the terms and conditions set forth in such agreement.

“SB 613” means Chapter 624 of the California Statutes of 2010.

“Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Attn: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depository may specify and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

“Semi-Annual Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (e) of the definition of Adjustment Period.

“Serial Bonds” will be the Bonds maturing on the Serial Maturity Dates, as determined pursuant to the Indenture.

“Serial Maturity Dates” means the dates on which the Serial Bonds mature, as determined pursuant to the Indenture.

“Serial Payments” mean the payments to be made in payment of the principal of the Serial Bonds on the Serial Maturity Dates.

“SIFMA” means, as of any date, the per annum rate published or reported by Municipal Market Data on its SIFMA Municipal Swap Index most recently available, or if the SIFMA Municipal Swap Index is no longer published or reported, the rate per annum published or reported on the S&P Weekly High Grade Index (formerly the J.J. Kenny Index), or if neither the SIFMA Municipal Swap Index nor the

S&P Weekly High Grade Index is published, such alternate interest rate index as the Remarketing Agent will select as most comparable to the SIFMA Municipal Swap Index.

“SIFMA Average Index Rate” means, during each Index Rate Accrual Period, the per annum rate equal to the average of SIFMA in effect for each day in such Index Rate Accrual Period.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such division will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the District and approved by the Liquidity Provider (which will not be under any liability by reason of such approval).

“State” means the State of California.

“Substitution Date” means the date upon which a new Liquidity Facility is substituted for the Liquidity Facility then in effect.

“Supplemental Indenture” means any supplemental indenture modifying, supplementing or amending the Indenture as theretofore in effect entered into by the District and the Trustee in accordance with the Indenture.

“Tax Certificate” means that certificate signed by the District on the date of the initial issuance of the Bonds relating to the requirements of Sections 103 and 141-150 of the Code.

“Tender Deadline” means (i) during the Daily Mode, 11:00 a.m. on any Business Day, (ii) during the Weekly Mode, 5:00 p.m. on the Business Day seven days prior to the applicable Purchase Date, (iii) during the Monthly Mode, 5:00 p.m. on the Business Day seven days prior to the applicable Purchase Date, and (iv) during the Semi-Annual Mode and the Annual Mode, 5:00 p.m. on the Business Day 15 days prior to the applicable Purchase Date. Any Tender Notice given after the applicable Tender Deadline will be deemed to have been received on the next succeeding Business Day.

“Tender Notice” means a written notice or, if the Bonds are in the Daily Mode, telephonic notice (immediately confirmed in writing), from the Owner of a Bond that such Owner is exercising its option to tender such Bond for purchase, which notice will include (i) the CUSIP number, if applicable, the principal amount of such Bond and the principal amount of such Bond to be purchased pursuant to the Indenture, (ii) the Purchase Date on which such Bond is to be purchased, (iii) applicable payment instructions with respect to the Bonds being tendered for purchase and (iv) an irrevocable demand for such purchase.

“Tender Period Standard Date” means, with respect to any Tender Period, the date which is six months prior to the Scheduled Mandatory Tender Date for such Tender Period.

“Term Rate” means the Adjusted Interest Rate for a Term Rate Bond for the applicable Adjustment Period determined pursuant to the Indenture.

“Term Rate Bonds” means the Bonds during the Term Rate Mode.

“Term Rate Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is greater than one year.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, or any other bank or trust company duly incorporated and existing under and by virtue of the laws of any state or of the United States of America, which may be substituted in its place as provided in the Indenture.

“Utility Rates and Charges” means all water, sewer and reclaimed water rates and charges imposed by the District in connection with providing water, sewer and reclaimed water services to retail customers through the Operating Systems, including commodity, service, standby, material treatment and connection charges, except: (i) such water, sewer and reclaimed water rates and charges levied in lieu of *ad valorem* assessments pursuant to Sections 36425 and 35975 of the Act; and (ii) customer deposits.

“Water Code” means the California Water Code, as amended.

“Weekly Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (c) of the definition of Adjustment Period.

CERTAIN TERMS OF BONDS

Denominations and Medium, Method and Place of Payment. The Bonds will be issued in the form of fully registered Bonds in Authorized Denominations. The principal, Purchase Price and Redemption Price of, and interest on, the Bonds will be payable in lawful money of the United States of America. Except as otherwise provided in the Representation Letter, the interest on the Bonds will be payable on the Interest Payment Dates by check Mailed on the applicable Interest Payment Date by the Trustee to the respective Owners thereof at their addresses as they appear on the applicable Record Date in the Bond Register, except that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee, received at least 10 days prior to a Record Date, specifying the account or accounts to which such payment will be made, payment of interest will be made by wire transfer of immediately available funds on the following Interest Payment Date. Any such request will remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. The principal, Purchase Price and Redemption Price of each Bond will be payable, on the due date thereof pursuant to the Indenture, upon surrender thereof at the Corporate Trust Office of the Trustee.

The Trustee and the District may treat the Owner of a Bond as the sole, exclusive and absolute owner thereof for all purposes, whether or not such Bond will be overdue, and the Trustee and the District will not be affected by any knowledge or notice to the contrary; and payment of the principal, Purchase Price and Redemption Price of, and interest on, such Bond will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability on such Bond to the extent of the sum or sums so paid. All Bonds paid pursuant to the Indenture will be cancelled by the Trustee and will not be redelivered.

Interest on Liquidity Provider-Owned Bonds. Notwithstanding anything to the contrary contained in the Indenture, each Liquidity Provider-Owned Bond will bear interest on the outstanding principal amount thereof at the Liquidity Provider Interest Rate for each day from and including the date such Bond becomes a Liquidity Provider-Owned Bond to, but not including, the date such Bond is paid in full or is remarketed. Interest on Liquidity Provider-Owned Bonds at the Liquidity Provider Interest Rate shall be payable only to the Liquidity Provider and not to any other Owner.

Interest on Liquidity Provider-Owned Bonds will be payable as provided in the Reimbursement Agreement. Liquidity Provider-Owned Bonds will not bear interest at the Liquidity Provider Interest Rate after such Bonds have been remarketed unless such Bonds will again become Liquidity Provider-

Owned Bonds. Interest on Liquidity Provider-Owned Bonds will be calculated based upon a 360-day year and actual days elapsed.

Transfer and Exchange of Bonds. All Bonds are transferable or exchangeable by the Owner thereof, in person or by the Owner's attorney duly authorized in writing, at the Corporate Trust Office of the Trustee in the Bond Register, upon surrender of such Bonds accompanied by delivery of a duly executed written instrument of transfer or exchange in a form approved by the Trustee. Whenever any Bond or Bonds will be surrendered for transfer or exchange, the Trustee will execute and deliver a new Bond or Bonds of Authorized Denominations of the same aggregate principal amount and terms, except that the Trustee may require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. All Bonds surrendered pursuant to the Indenture as summarized in this caption will be cancelled by the Trustee, will not be redelivered and will be disposed of as directed by the District. All such Bonds issued in exchange for Bonds will be in the same Mode as the Bonds in exchange for which such Bonds were issued.

During the Semi-Annual Mode, the Annual Mode, the Fixed Rate Mode and the Term Rate Mode, the Trustee will not be required to transfer or exchange any Bonds during the period commencing on the date ten days prior to the date of selection of Bonds for redemption and ending on such date of selection, or any Bond selected for redemption in whole or in part.

Bond Register. The Trustee will keep at its Corporate Trust Office the Bond Register for the registration of the ownership, transfer or exchange of the Bonds, which Bond Register will be available for inspection by the District and the Trustee at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee will, under such reasonable regulations as it may prescribe, register the ownership, transfer or exchange of the Bonds in the Bond Register as provided in the Indenture. The ownership of any Bonds may be proved by the Bond Register required to be kept by the Trustee pursuant to the provisions of this paragraph.

Temporary Bonds. The Bonds may be initially delivered in temporary form exchangeable for definitive Bonds when ready for delivery, which temporary Bonds will be printed, lithographed or typewritten, will be of such denominations as may be determined by the Trustee, will be in fully registered form and will contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be authenticated and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Bonds. If the Trustee authenticates and delivers temporary Bonds, the District will prepare and execute and the Trustee will authenticate definitive Bonds without delay, and in that case upon demand of the Owner of any temporary Bonds such definitive Bonds will be exchanged without cost to such Owner for temporary Bonds at the office of the Trustee upon surrender of such temporary Bonds, and until so exchanged such temporary Bonds will be entitled to the same benefit, protection and security under the Indenture as the definitive Bonds executed and delivered under the Indenture. All temporary Bonds surrendered pursuant to the provisions of the Indenture as summarized in this paragraph will be cancelled by the Trustee, will not be redelivered and will be disposed of as directed by the District.

Bond Mutilated, Destroyed, Lost or Stolen. If any Bond becomes mutilated, the Trustee will authenticate and deliver a new Bond of like tenor and number in lieu of the mutilated Bond, but only upon surrender to the Trustee of the mutilated Bond and provision of indemnification satisfactory to the Trustee, and every mutilated Bond surrendered to the Trustee will be cancelled by it and will not be redelivered and will be disposed of as directed by the District. If any Bond is destroyed, lost or stolen, evidence of such destruction, loss or theft may be submitted to the Trustee and if such evidence is satisfactory to the Trustee, and the Trustee and the District receive indemnity satisfactory to them, the Trustee will authenticate and deliver a new Bond of like tenor and number in substitution for the

destroyed, lost or stolen Bond. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond authenticated and delivered by it pursuant to this paragraph and of the expenses which may be incurred by it pursuant to this paragraph. Any replacement Bond authenticated and delivered under the provisions of this paragraph in lieu of or in substitution for any mutilated, destroyed, lost or stolen Bond will be equally and proportionately entitled to the benefit, protection and security of the Indenture with all other Bonds executed and delivered under the Indenture; and the Trustee will not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and the replacement Bond will be treated as one and the same. Notwithstanding any other provisions summarized in this paragraph, rather than authenticating and delivering a new Bond for a mutilated, destroyed, lost or stolen Bond which has matured, has been called for redemption or has become subject to mandatory tender for purchase, the Trustee may make payment of the principal of such mutilated, destroyed, lost or stolen Bond directly to the Owner thereof under such regulations as the Trustee may prescribe. To the extent permitted by law, the District agrees to indemnify and hold harmless the Trustee from and against any claims, damages and losses (including legal fees and expenses), arising out of payment of principal of any stolen Bond.

FUNDS AND ACCOUNTS

Purchase Fund. There is established and will be maintained with the Trustee, the Purchase Fund. The Trustee will further establish separate accounts within the Purchase Fund to be known as (i) the “Liquidity Facility Purchase Account,” (ii) the “Remarketing Proceeds Account” and (iii) the “District Purchase Account.” The Trustee may establish such subaccounts in the accounts in the Purchase Fund as the Trustee may determine appropriate.

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a Purchase Date, Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, the Trustee will deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds in accordance with the Indenture. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Liquidity Provider-Owned Bonds, the Trustee will immediately pay such proceeds to the Liquidity Provider to the extent of any amount owing to the Liquidity Provider.

Liquidity Facility Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Trustee from draws on the Liquidity Facility pursuant to the Indenture, the Trustee will deposit such money in the Liquidity Facility Purchase Account for application to the Purchase Price of the Bonds to the extent that the monies on deposit in the Remarketing Proceeds Account will not be sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Purchase Date, Mandatory Purchase Date or Scheduled Mandatory Tender Date for the payment of the Purchase Price for any Bonds will be immediately returned to the Liquidity Provider.

District Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Trustee from the District pursuant to the Indenture, the Trustee will deposit such money in the District Purchase Account for application to the Purchase Price of the Bonds to the extent that the monies on deposit in the Remarketing Proceeds Account and the Liquidity Facility Purchase Account will not be sufficient. Any amounts deposited in the District Purchase Account and not needed with respect to any Purchase Date, Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date for the payment of the Purchase Price for any Bonds will be immediately returned to the District.

Investment. Amounts held in the Liquidity Facility Purchase Account and the Remarketing Proceeds Account by the Trustee will be held uninvested.

Bond Payment Fund. For information on the Bond Payment Fund, see the respective sections of the Official Statement.

Costs of Issuance Fund. The Indenture establishes and creates the Costs of Issuance Fund. The Bond proceeds deposited in the Costs of Issuance Fund will be apportioned by the District among the respective Improvement Districts according to each Improvement District's Included Percentage. All monies on deposit in the Costs of Issuance Fund will be applied by the District for the payment of the costs of issuing the Bonds, including printing costs, rating agency fees, the fees and expenses of co-bond counsel, the Trustee, CUSIP Service Bureau charges and other costs and expenses of the District relating to the issuance and sale of the Bonds. Any amounts remaining in the Costs of Issuance Fund on October 1, 2011 will be transferred to the Trustee for deposit in the Interest Account or the Principal Account as directed by the District and used to pay the interest or the principal becoming due on the following Interest Payment Date or Principal Payment Date, as applicable.

Investments. Any moneys held in the Revenue Fund will be invested by the District in any investment permitted by law for such funds which will mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Indenture. All investment earnings from moneys or deposits in the Revenue Fund will be credited in such fund and applied only to the purposes permitted for such fund. The District may commingle any of the moneys in the Revenue Fund with the moneys held in other funds or accounts (except for moneys held in any rebate fund, which will be held separately) for investment purposes only; provided however, that all moneys in the Revenue Fund will be accounted for separately notwithstanding such commingling.

So long as the Bonds are Outstanding and no Event of Default has occurred and is continuing, monies on deposit to the credit of the Funds (except for the Liquidity Facility Purchase Account and the Remarketing Proceeds Account in the Purchase Fund in accordance with the provisions of the Indenture summarized under the caption “-Purchase Fund-Investment” above) held by the Trustee will, at the written request of the Representative, be invested by the Trustee in Permitted Investments. In the absence of written instruction from the District Representative, the Trustee is directed to hold available funds uninvested. The Trustee is entitled to rely conclusively on said instructions for purposes of this caption and will have no duty to monitor the compliance thereof with the restrictions set forth in the Indenture. Subject to the limitations contained in Government Code Section 53601, monies in the Funds held by the District will be invested by the District in Permitted Investments. All such investments will have maturity dates, or will be subject to redemption, at the option of the holder, on or prior to the dates the monies invested therein will be needed for the purposes of such Funds.

The Trustee may commingle any of the money held by it under the Indenture. The Trustee may present for redemption or sell any such deposit or investment whenever it will be necessary in order to provide money to meet any payment of the money so deposited or invested. The Trustee will not be liable or responsible for any depreciation or any losses resulting from any such deposit or investment presented for redemption or sold. The Trustee is not liable to the District or any other person in the event that any investment made in accordance with the written instructions of the District will cause the Bonds to become arbitrage bonds within the meaning of Section 148 of the Code or will cause any person to incur any liability for rebate or other monies payable pursuant to the Code.

Any interest or profits on deposits and investments in the Bond Payment Fund received by the Trustee will be deposited in the Interest Account as a credit against interest to come due on the

Outstanding Bonds. Any interest or profits on deposits and investments in the Costs of Issuance Fund will be retained therein.

The District acknowledges to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the District waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which will include detail for all investment transactions made by the Trustee under the Indenture.

CERTAIN COVENANTS

Payment of Bonds. The District will promptly pay, or cause to be paid, the principal, Purchase Price and Redemption Price of, and interest on, the Bonds on the dates and in the manner provided in the Bonds, but only from the sources available therefor under the Indenture. From such available sources, the District will provide the Trustee sufficient monies to enable the Trustee to make all such payments as provided in the Indenture and the Bonds.

General Obligation Bond Fund. The Indenture establishes and creates the General Obligation Bond Fund, together with an account within such Fund for each Improvement District, which the District agrees to maintain as long as the Indenture is not discharged in accordance with the defeasance provisions of the Indenture. Additionally, the District may deposit other available monies in such Fund and such monies will be apportioned to each Improvement District within the Fund according to each Improvement District's Included Percentage. The assessments and charges levied upon and collected within any Improvement District will not exceed the amount required to pay such Improvement District's Included Amount of the principal, Purchase Price and Redemption Price of the Bonds, and the interest thereon. Monies raised by each Improvement District for this purpose will be deposited to the Improvement District's account within the General Obligation Bond Fund and will be used solely for the purpose of paying such Improvement District's Included Amount of the principal, Purchase Price and Redemption Price of the Bonds and the interest thereon, including reimbursing the District for any such payments made from Net Revenues. Except as provided below, the District will transfer from the General Obligation Bond Fund to the Trustee for deposit in the Bond Payment Fund monies at such times and in such amounts as are sufficient for the Trustee to make the transfers from the Bond Payment Fund as provided in the Indenture.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Trustee of the rights and benefits provided to it in the Indenture.

Tax Covenants and the Rebate Fund. In addition to the other Funds and accounts created pursuant to the Indenture, the District will establish and maintain a Rebate Fund for the Bonds separate from any other Fund or account. There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate with respect to the Bonds. All money at any time deposited in the Rebate Fund will be held by the District in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the provisions of the Indenture as summarized in this caption and by the Tax Certificate. Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in clause (2) of the immediately following paragraph, will be withdrawn and retained by the District.

The District will pay to the United States of America out of amounts in the Rebate Fund, (1) not later than 30 days after the end of the fifth Bond Year (as defined in the Tax Certificate) and not less frequently than once each five years thereafter, an amount equal to at least 90% of the Rebate Requirement; and (2) not later than 60 days after the retirement of all of the Bonds, an amount equal to 100% of the Rebate Requirement (determined as of the date of the retirement of all Bonds).

In the event that, prior to the time of any required payment out of the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District will deposit an amount equal to such deficiency into the Rebate Fund prior to the time such payment is due. Each such payment required to be made pursuant to the immediately preceding paragraph will be made to the United States of America on or before the date such payment is due, as set forth in the Tax Certificate. In the event that on the first day of any Bond Year the amount credited to the Rebate Fund exceeds the Rebate Requirement, the District will withdraw the excess from the Rebate Fund and transfer such excess to the Trustee for credit to the Interest Account of the Bond Payment Fund. For purposes of crediting amounts to the Rebate Fund or withdrawing amounts from the Rebate Fund, Nonpurpose Investments (as defined in the Tax Certificate) will be valued in the manner provided in the Tax Certificate.

On or before the first day of each Bond Year, an amount will be deposited to the Rebate Fund by the District, if and to the extent required, so that the balance of the Rebate Fund will equal the Rebate Requirement for the Bond Year commencing on such first day.

The District will not use or permit the use of any proceeds of Bonds or any funds of the District, directly or indirectly, to acquire any securities or obligations, and will not take or permit to be taken any other action or actions, which would cause any Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The District will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The District will comply with all requirements of Sections 148 and 149(d) of the Code to the extent applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of this paragraph it is necessary to restrict or to limit the yield on the investment of any monies held by the Trustee or held by the District under the Indenture, the District will so restrict or limit the yield on such investment or will so instruct the Trustee in a detailed certificate, and the Trustee will take such action as may be necessary in accordance with such instructions.

The District specifically covenants to comply with the provisions and procedures of the Tax Certificate.

The District will not use or permit the use of any proceeds of the Bonds or any funds of the District, directly or indirectly, in any manner, and will not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

Notwithstanding any provisions of the Indenture summarized in this caption, if the District will provide to the Trustee an Opinion of Bond Counsel that any specified action required under this caption is no longer required or that some further or different action is required to maintain the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, the Trustee and the District may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding the default provisions of the Indenture, the covenants under the Indenture will be deemed to be modified to that extent.

Segregation of Proceeds. The District specifically covenants to segregate the proceeds from the sale of the Bonds and any investment earnings thereon from other monies of the District, whether such proceeds are held in the treasury of the District or with the Trustee.

Continuing Disclosure. The District covenants and agrees to comply with the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the District to comply with the requirements of the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations in this paragraph with respect to the Continuing Disclosure Certificate.

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 Operating Systems and will keep the Operating Systems free of any and all liens. In the event any such lien attaches to or is filed against any portion of the Operating 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 contesting such lien will not materially impair operation of the Operating Systems. If any such lien will 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.

Sale or Other Disposition of Operating Systems. The District will not sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part or rights of the Operating Systems or any real or personal property comprising a part of the Operating Systems if such sale, transfer or disposition would cause the District to be unable to satisfy its obligations under the Indenture.

Maintenance of Operating Systems by the District. The District will maintain and preserve the Operating Systems in good repair and working order at all times and will operate the Operating Systems in an efficient and economical manner and will pay all maintenance and operation costs, as they become due and payable. The District agrees that, at its own cost and expense, it will maintain, preserve and keep its Operating Systems and every part and parcel thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Trustee will have no responsibility in any of these matters.

Insurance. The District will procure and maintain such insurance relating to the Operating Systems which it will deem advisable or necessary to protect its interests and operations, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with public water, sewer and reclaimed water systems similar to the Operating 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 as is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained under the Indenture will provide that the Trustee will be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Notwithstanding the foregoing provisions in this caption, if at any time the District is unable to obtain or maintain insurance to the extent required by such provisions on reasonable terms, as to amounts, costs or as to risks, the failure to maintain such insurance will not constitute an Event of Default under the Indenture if the District will cause the employment of an independent insurance consultant in accordance with the Indenture.

Payment of Taxes and Compliance with Governmental Regulations. The District will: (i) pay and discharge all taxes, assessments and other governmental charges which may hereafter be imposed upon the Operating Systems or any part thereof when the same will become due; and (ii) will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Operating Systems or any part thereof; provided, however, that the District will not be required to comply with the requirements of either clause (i) or clause (ii) above to the extent that the validity or application of any particular taxes, assessments or other governmental charges, or any particular regulation or requirement, as applicable, will be contested in good faith and contesting such validity or application will not materially impair the operation or maintenance of the Operating Systems or the financial condition of the District or the ability of the District to perform all of its obligations under the Indenture.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. Each of the following events constitute an “Event of Default” under the Indenture:

- (a) Default in the punctual payment when due of interest on any Outstanding Bond;
- (b) Default in the punctual payment when due of the principal, or Redemption Price of any Outstanding Bond;
- (c) Default in the punctual payment Purchase Price of any Outstanding Bond when due on any Purchase Date, Mandatory Purchase Date or Scheduled Mandatory Tender Date; and
- (d) Except as expressly otherwise provided in the Indenture, the District will fail to observe or perform in any material way any covenant, condition, agreement or provision contained in the Bonds or in the Indenture on the part of the District to be performed, other than those set forth in paragraphs (a), (b) and (c) above, and such failure will continue for 30 days after written notice specifying such failure and requiring the same to be remedied will have been given to the District by the Trustee, which notice may be given by the Trustee in its discretion and will be given by the Trustee at the written request of the Owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding; provided, however, that, if said default be such that it cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected in accordance with the Indenture.

If an Event of Default occurs and is continuing, the Trustee will Mail notice of the Event of Default to the Owners as promptly as practicable after it occurs.

Acceleration. If an Event of Default occurs and is continuing, the Trustee by notice to the District, or the Owners of at least 25% in aggregate principal amount of the Bonds then Outstanding by notice to the District and the Trustee, may declare the principal of and accrued interest on the Outstanding Bonds to be due and payable immediately. Upon any such declaration the principal of and accrued interest on the Outstanding Bonds will be due and payable immediately. Except as provided in this paragraph, neither the Trustee nor the Owners will have the right to declare the Bonds to be due and payable.

Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal, Purchase Price and Redemption Price of, and interest on, the Bonds or to enforce the performance of any provision of the Bonds or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the

Bonds or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Owner in exercising any right or remedy accruing upon an Event of Default will not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Waiver of Past Defaults. The Owners of a majority in principal amount of Outstanding Bonds, by notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

Control by Majority of Owners. The Owners of a majority in aggregate principal amount of Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it; provided such Owners have satisfied the requirements under the Indenture for giving such instructions, including providing indemnification to the Trustee. The Trustee may refuse to follow any direction that it determines, in its sole opinion, conflicts with law or the Indenture or may result in the Trustee being exposed to personal liability or that the Trustee determines is unduly prejudicial to the rights of other Owners.

Limitation on Suits. An Owner may not pursue any remedy pursuant to the Indenture or pursuant to the Bonds unless (a) the Owner gives the Trustee written notice stating that an Event of Default has occurred and is continuing, (b) the Owners of at least 25% in principal amount of the Outstanding Bonds make a written request to the Trustee to pursue the remedy, (c) such Owner or Owners offer to the Trustee indemnity satisfactory to the Trustee (in its sole opinion) against any loss, liability or expense, and (d) the Trustee does not comply with such request within 60 days after receipt of the request and the offer of indemnity.

An Owner may not use the Indenture to prejudice the rights of another Owner or to obtain a preference or priority over any other Owner.

Rights of Owners to Receive Payment. Notwithstanding any other provision of the Indenture, the right of any Owner to receive payment when due of the principal or Redemption Price of and interest on its Bond or Bonds, or to bring suit for the enforcement of any such payment, will not be impaired or affected without the consent of the Owner.

Collection Suit by Trustee. If an Event of Default under paragraph (a) or (b) listed above under the caption “–Events of Default” occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the District for the whole amount remaining unpaid.

Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Owners allowed in any judicial proceedings relative to the District or its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Owners in any election of a trustee in bankruptcy or other person performing similar functions. Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner of Bonds any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner of Bonds thereof, or to authorize the Trustee to vote in respect of the claim of any Owner of Bonds in any such proceeding without the approval of the Owners of Bonds so affected.

Priorities. If the Trustee collects any money pursuant to a default under the Indenture, it will pay out the money in the following order: first to the Trustee for amounts to which it is entitled under the Indenture; second to Owners for amounts due and unpaid for principal or Redemption Price of, and

interest on, the Outstanding Bonds, ratably, without preference or priority of any kind, according to the amount due and payable on the Bonds for such principal, Redemption Price and interest, respectively; and third to the District. The Trustee may fix a payment date for any payment to the Owners pursuant to this paragraph.

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

Undertaking for Costs. In any suit for the enforcement of any right or remedy under the Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This paragraph does not apply to a suit by the Trustee, a suit by an Owner pursuant to the Indenture as summarized in the caption "--Rights of Owners to Receive Payment" or a suit by Owners of more than 25% in aggregate principal amount of Bonds Outstanding.

THE TRUSTEE AND THE REMARKETING AGENT

Removal and Resignation of the Trustee. The Trustee may resign by notifying the District, subject to the conditions set forth in the Indenture.

The Owners of a majority in principal amount of the Outstanding Bonds may remove the Trustee by notifying the Trustee and may appoint a successor Trustee with the consent of the District and, when a Liquidity Facility is in effect and so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, the prior written consent of the Liquidity Provider (which will be under no liability by reason of giving or withholding such consent).

The District will remove the Trustee by notifying the Trustee if (a) the Trustee fails to comply with the penultimate sentence of the first paragraph of this caption, (b) the Trustee is adjudged a bankrupt or an insolvent, (c) a receiver or other public officer takes charge of the Trustee or its property or (d) the Trustee otherwise becomes incapable of acting, as determined by the District. Upon any such removal or resignation, the District will promptly appoint a successor Trustee in accordance with the terms of the Indenture.

Successor Trustees. Any successor Trustee will be a bank, national banking association or trust company doing business and having a Corporate Trust Office in either New York, New York or Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by state or national authorities, as further detailed in the Indenture.

Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of the appointment by the successor Trustee and the transfer by the retiring Trustee to the successor Trustee of all property held by it under the Indenture as Trustee, including the transfer to the successor Trustee of the Liquidity Facility in accordance with its terms.

Compensation and Indemnification of the Trustee. The District will from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee compensation for its services and reimburse the Trustee for all its advances and expenditures under the Indenture, including but not limited

to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsels or other experts employed by it in the observance and performance of its rights and obligations under the Indenture; provided that the Trustee will not have any lien for such compensation or reimbursement against any money held by it in any of the funds established under the Indenture, although the Trustee may take whatever legal actions are available to it directly against the District to recover such compensation or reimbursement.

To the extent permitted by law, the District does assume liability for, and agrees to indemnify and hold harmless the Trustee and its officers, directors, agents and employees from and against any and all claims, damages and losses (including legal fees and expenses) incurred by the Trustee without negligence or willful misconduct on the part of the Trustee, arising out of or in connection with (i) any breach or default by the District of any of its obligations under the Indenture, (ii) the offering, issuance, sale or any resale of the Bonds or (iii) the acceptance or administration of its duties under the Indenture, as well as the costs and expenses of enforcing the Indenture against the District and defending itself against any claim (whether asserted by the District or an Owner and whether or not litigation is commenced) or liability in accordance with the exercise or performance in the absence of negligence or willful misconduct of any of its powers or duties under the Indenture. The failure of the Trustee to notify the District will not relieve the District of its obligations under the Indenture. The obligations of the Indenture summarized in this caption will survive the termination and discharge of the Indenture and the resignation or removal of the Trustee.

When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Protection of the Trustee. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it will in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with its counsel with regard to legal questions arising under the Indenture, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered under the Indenture in the absence of negligence or willful misconduct.

Whenever in the observance or performance of its rights and obligations under the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a certificate of the District Representative, and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture 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 may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if it were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District and may act as agent, depositary or trustee for any committee or body of

Owners or of owners of obligations of the District as freely as if it were not the Trustee under the Indenture.

The Trustee may act through agents, attorneys or co-trustees (which co-trustees, if any, will be approved by the District) and will not be responsible for the misconduct or negligence of any agent, attorney or co-trustee appointed with due care.

The Trustee will not be liable for any action it takes or omits to take in good faith without negligence which it believes to be authorized or within its rights or powers.

The Trustee makes no representation as to the validity or adequacy of the Indenture or the Bonds or compliance with any federal or state securities laws, will not be accountable for the District's covenants and representations contained in the Indenture or the recitals made in the Indenture which are made by the District solely, and will not be responsible for any statement in the Bonds other than its certificate of authentication.

The Trustee will 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 will not be deemed to have knowledge of an Event of Default under the Indenture, unless it will have actual knowledge at its Corporate Trust Office.

The Trustee will not be accountable for the use of application by the District of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture or for the use and application of money received by any paying agent. The Trustee will not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture.

The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Trustee will have received an incumbency certificate listing persons designated to give such instructions or direction sand containing specimen signature of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Duties of the Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default,

(1) The Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into the Indenture against the Trustee, and

(2) In the absence of negligence or willful misconduct on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. However, the Trustee will examine these certificates and opinions to determine whether such documents conform to the requirements of the Indenture on their face.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that

(1) This paragraph (c) does not limit the effect of the preceding paragraph (b),

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

(3) The Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to the provisions of the Indenture as summarized under the caption "DEFAULT AND LIMITATIONS OF LIABILITY—Control by Majority Owners," and

(4) No provision of the Indenture will 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 Indenture or in the exercise of any of its rights or powers, if it will have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly provided, every provision of the Indenture that in any way relates to the Trustee is subject to all the foregoing paragraphs of this caption.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it (in its sole opinion) against any loss, liability or expense, but the Trustee will not require indemnity as a condition to declaring the principal of and interest on the Bonds to be due immediately pursuant to acceleration under the Indenture, to drawing on the Liquidity Facility, redeeming Bonds, making payment on the Bonds or providing for the purchase of Bonds on a Mandatory Purchase Date.

(f) The Trustee will not be liable for interest on any cash held by it except with respect to investment earnings as provided by the provisions of the Indenture as summarized under the caption "FUNDS AND ACCOUNTS—Investments" and as the Trustee may otherwise agree with the District.

(g) The permissive right of the Trustee to act under the Indenture will not be construed as a duty.

Appointment of Remarketing Agent. The District appoints the Remarketing Agent to remarket Bonds pursuant to the Indenture, and to keep such books and records as will be consistent with prudent industry practice and to make such books and records available for inspection by the Liquidity Provider, the District and the Trustee at all reasonable times, and to give Electronic Notice, promptly confirmed by a written notice, to the Trustee (who will then promptly notify the Liquidity Provider and the Trustee), specifying (i) the principal amount of such Bonds, if any, remarketed by it as provided in the Indenture, and (ii) the interest rates on the remarketed Bonds as determined pursuant to and in accordance with the Indenture.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at 30 days' written notice to the Liquidity Provider, the District, the Trustee and the Trustee; provided that in the event a successor remarketing agent will have not been appointed within such 30 day period, the Remarketing Agent's resignation and discharge from its duties and obligations created by the Indenture will not be effective until the earlier of (i) the appointment of such successor or (ii) 30 days from the expiration of the aforementioned 30 day notice period. The Remarketing Agent may be removed at any time, at the direction of the District, upon 15 days' prior written notice by an instrument filed with the Remarketing Agent and the Trustee. Any successor Remarketing Agent will be selected by the District and will be a member of FINRA, will have a capitalization of at least \$50,000,000 and will be authorized by law to perform all the duties set forth in the Indenture. When a Liquidity Facility is in effect and so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, the District will obtain the Liquidity Provider's prior written consent to the appointment of such successor Remarketing Agent, which consent may be withheld only for reasons related to the successor's capitalization and which will not be unreasonably withheld (provided that the Liquidity Provider will be under no liability by reason of giving or withholding such consent). The District's delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor will be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Indenture and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the Indenture.

Successor Trustee or Remarketing Agent by Merger. If the Trustee or the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association or trust company, its corporate assets) to, another corporation, the resulting, surviving or transferee corporation without any further act will be the successor Trustee or Remarketing Agent, as applicable.

AMENDMENT OF OR SUPPLEMENT TO INDENTURE

Amendments or Supplements Permitted. (a) The provisions of the Indenture and the rights and obligations of the District and of the Owners of the Outstanding Bonds and of the Trustee may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, with the written consent of each Liquidity Provider whose consent is required by a Liquidity Facility, when the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (unless the consent of Owners is not required pursuant to the terms of the Indenture as summarized in (b) or (c) in this caption) will have been filed with the Trustee; or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Bonds (unless the consent of Owners is not required pursuant to the terms of the Indenture as summarized in (b) or (c) in this caption);

provided that if such modification, amendment or supplement will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of the calculation of Outstanding Bonds for purposes of this caption. No such modification, amendment or supplement will (1) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Bonds then Outstanding; (2) extend the fixed maturity of any Bond, or reduce the principal amount thereof payable upon mandatory redemption, or extend the due date of any mandatory redemption, or reduce the rate of interest on any Bond or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; (3) reduce the Redemption Price due on the redemption of any Bond at the option of the District or change the date or dates when any Bond is subject to redemption at the option of the District without the consent of the Owner of each Bond so affected; or (4) modify the rights or obligations of the Trustee without its consent. It will not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

Whenever, at any time after the date of the Mailing of notice of the proposed entry into a Supplemental Indenture requiring the consent of the Owners of Bonds, the District will have received an instrument or instruments in writing executed in accordance with the Indenture by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding whose consent is required pursuant to the preceding paragraph or this paragraph, which instrument or instruments will refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and will consent to such Supplemental Indenture in substantially the form referred to in such notice, thereupon, but not otherwise, the District and the Trustee may enter into such Supplemental Indenture in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner will have consented thereto.

(b) Subject to the provisions of the following paragraph (c) in this caption, the Indenture, and the rights and obligations of the District, the Trustee and the Owners of the Outstanding Bonds, may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the District and the Trustee may enter into with the consent of each Liquidity Provider whose consent is required by a Liquidity Facility but without the consent of any Owners of Bonds (but with the consent of the Trustee if the modification, amendment or supplement affects the rights of the Trustee), so long as such modification, amendment or supplement will not materially, adversely affect the interests of the Owners of the Outstanding Bonds (as evidenced by the Favorable Opinion of Bond Counsel delivered under paragraph (d) of this caption), including without limitation, for any one or more of the following purposes:

- (i) to pledge, provide or assign any additional security for the Bonds;
- (ii) to add to the covenants and agreements of the District contained in the Indenture or other covenants and agreements thereafter to be observed by the District or to surrender any right of power in the Indenture reserved to or conferred upon the District;
- (iii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable;
- (iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal

statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(v) to provide for (or subsequently modify) an additional Mode for the Bonds and the provisions relating thereto. Such amendment will specify the period for payment of the interest, the manner, intervals and dates at which the rate will be set and the intervals and procedures by which the Bonds may be tendered for purchase. These changes will be noted on the Bonds in accordance with the Indenture, or an amended Bond form will be provided for in the amendment in order to reflect them;

(vi) to comply with the requirements of each Rating Agency; or

(vii) to transfer any Fund or account created in the Indenture held by the District as well as any money on deposit in any such Fund or account to the Trustee and to make such provisions for the purpose of correcting or supplementing any provision contained in the Indenture to reflect the transfer of such Fund or account.

(c) Notwithstanding anything to the contrary in this caption, the provisions of the Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in paragraph (a) above, without the consent of the Owners of Bonds if either (i) the effective date of such Supplemental Indenture is a date on which the Bonds are subject to mandatory tender for purchase pursuant to the Indenture or (ii) notice of the proposed Supplemental Indenture is given to Owners of all affected Bonds at least 30 days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Bonds have the right to demand purchase of such Bonds pursuant to the Indenture.

(d) Notwithstanding anything to the contrary in this caption, no modification, amendment or supplement to the provisions of the Indenture will be effective until the District delivers to the Trustee a Favorable Opinion of Bond Counsel in connection with such modification, amendment or supplement.

Effect of Supplemental Indenture. Upon the District and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, and satisfying the requirements of the immediately preceding paragraph (d), the Indenture will be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes. Except for Supplemental Indentures requiring the consent of Owners pursuant to the Indenture as summarized in paragraph (a) of the preceding caption, upon the District and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, no Owner of any Bond will have any right to object to the entry into such Supplemental Indenture by the District and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the District or the Trustee from entering into the same or to enjoin or restrain the District or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave his consent to such Supplemental Indenture.

Disqualified Bonds. Bonds held for the account of the District will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and will not be entitled to consent to or take any other action provided in the Indenture (provided, however, that only Bonds that a Responsible Officer of the Trustee actually knows to be so held will be disregarded), unless all Bonds are so held, in which case no such Bonds will be disregarded

and the Trustee may adopt appropriate regulations to require each Owner, before such Owner's consent provided for in the Indenture will be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this paragraph.

Signing by Trustee of Amendments and Supplements. The Trustee will sign any amendment or supplement to the Indenture or the Bonds authorized by the Indenture if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If any amendment or supplement to the Indenture or the Bonds authorized by the Indenture does adversely affect the rights, duties, liabilities or immunities of the Trustee, the Trustee may, but need not, sign it. In signing a Supplemental Indenture, the Trustee will be fully protected in relying on a Favorable Opinion of Bond Counsel, subject to the provisions of the Indenture.

DEFEASANCE

Discharge of Indenture. If and when the Bonds secured by the Indenture will become due and payable in accordance with their terms or through redemption proceedings as provided in the Indenture, or otherwise, and the whole amount of the principal or Redemption Price and the interest so due and payable upon all of the Bonds will be paid, or provision will have been made for the payment of the same in accordance with the Indenture, together with all other sums payable under the Indenture by the District, including all fees and expenses of the Trustee have been paid in full, then and in that case, the Indenture and the lien created by the Indenture will be discharged and satisfied and the District will be released from the covenants, agreements and obligations of the District contained in the Indenture, and such lien and all covenants, agreements and other obligations of the District under the Indenture will cease, terminate, become void and be completely discharged. Upon the occurrence of such event, the Trustee will assign and transfer to or upon the order of the District all property (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and will execute such documents as may be reasonably required by the District in this regard.

When any of the Bonds will have been paid or provision will have been made for the payment of the same in accordance with the Indenture, then the Indenture and the lien created by the Indenture will be discharged and satisfied in respect of such Bonds and the District will be released from the covenants, agreements and obligations of the District contained in the Indenture in respect of such Bonds and such lien and all covenants, agreements and other obligations of the District under the Indenture will cease, terminate, become void and be completely discharged in respect of such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture, or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by the District of the covenants contained in the Indenture and the duties of the Trustee in connection with all of the foregoing, will remain in effect and will be binding upon the District, the Trustee and the Owners and the Trustee will continue to be obligated to hold in trust any monies or investments then held by the Trustee for the payment of the principal, Purchase Price or Redemption Price of and interest on the Bonds and to pay to the Owners the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture, or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation and indemnification of the Trustee will remain in effect and will be binding upon the Trustee and the District.

Defeasance of Bonds. Any Bond or Bonds will, prior to the maturity date or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Indenture if

(a) in case said Bonds are to be redeemed on any date prior to their maturity, the District will have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the Indenture, notice of redemption of such Bonds on the applicable Redemption Date; (b) there will have been deposited with the Trustee either monies in an amount which will be sufficient, or Government Obligations, the principal of and the interest on which when due, and without any reinvestment thereof, will provide monies which, together with the monies, if any, deposited with or held by the Trustee at the same time, will be sufficient (as verified by an Accountant's Report), to pay when due the principal, or Redemption Price, as applicable, of, and interest due and to become due on, said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and unless a Liquidity Facility remains in effect, the Purchase Price of any Bonds which may be tendered for purchase upon election of Owners pursuant to the Indenture and, with respect to any period to the Redemption Date or maturity date thereof, as the case may be, as to which the interest rate on the Bonds has not been set by the applicable Remarketing Agent, the interest on the Bonds will be calculated at the Maximum Rate; and (c) in the event any of said Bonds are not to be paid at maturity or redeemed within the next succeeding 60 days after the deposit described in clause (b) of this paragraph has been made with the Trustee, the District will have given the Trustee in form satisfactory to the Trustee irrevocable instructions to Mail, as soon as practicable in the same manner as a notice of redemption is Mailed pursuant to the Indenture, a notice to the Owners of such Bonds that the deposit required by clause (b) of this paragraph has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this paragraph and stating such maturity or Redemption Dates upon which monies are to be available for the payment of the principal or Redemption Price or Purchase Price, as applicable, of said Bonds. Neither the Government Obligations nor monies deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such Government Obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or Redemption Price (if applicable) of, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, and at the direction of the District, be reinvested in Government Obligations maturing at times and in amounts, together with the other monies and payments with respect to Government Obligations then held by the Trustee pursuant to this paragraph, sufficient (as verified by an Accountant's Report) to pay when due the principal or Redemption Price (if applicable) of, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments will, upon receipt by the Trustee of a written direction of a District Representative, be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge.

Any release pursuant to the provisions of the Indenture as summarized in this caption will be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Indenture created and the performance of its powers and duties under the Indenture; provided, however, that the Trustee will have no right, title or interest in, or lien on, any monies or securities deposited pursuant to the Indenture.

Monies Held for Particular Bonds. Except as otherwise provided in the Indenture as summarized under the caption "THE TRUSTEE AND THE REMARKETING AGENT—Protection of the Trustee," the amounts held by the Trustee for the payment of the interest, principal, Purchase Price or Redemption Price due on any date with respect to particular Bonds will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest, principal, Purchase Price

or Redemption Price of any Bonds which remains unclaimed for two years after the date when such payments have become payable, if such money was held by the Trustee on such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such payments have become payable, will upon written notice from the District be repaid by the Trustee (without liability for interest) to the District as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of the interest on, and principal, Purchase Price or Redemption Price of, such Bonds; provided that before being required to make any such payment to the District, the Trustee will, at the expense of the District, give notice by mail to the Owners of such Bonds that such money remains unclaimed and that after a date named in such notice, which date will not be less than 60 days after the date of giving such notice, the Trustee will promptly pay such unclaimed money to the District.

MISCELLANEOUS

Benefits of the Indenture Limited. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Liquidity Provider, the District, the Trustee, the Remarketing Agent, the Trustee and the Owners any claim, remedy or right under or pursuant to the Indenture, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of the District will be for the sole and exclusive benefit of the Liquidity Provider, the Trustee, the Remarketing Agent and the Trustee and the Owners. The Trustee and the District acknowledge that so long as the Liquidity Facility is in effect or any amount remains payable under the Reimbursement Agreement, the Liquidity Provider will be a third party beneficiary of the Indenture, with the power to enforce the same.

Successor Deemed Included in All References to Predecessor. Whenever either the Liquidity Provider, the District, the Trustee, the Remarketing Agent, the Trustee or any officer thereof is named or referred to in the Indenture, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the Liquidity Provider, the District, the Trustee, the Remarketing Agent or the Trustee or such officer, and all agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by or on behalf of the Liquidity Provider, the District, the Trustee, the Remarketing Agent or the Trustee or any officer thereof will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's 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 take acknowledgments of deeds to be recorded in the state or territory in which such notary public or other officer purports to act that the person signing such declaration, request or other instrument or writing acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

Any declaration, request or other instrument in writing of the Owner of any Bond will bind all future Owners of such Bond with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. No supervisor, officer or employee of the District will be individually or personally liable for the payment of the principal, Purchase Price, Redemption Price of, or interest on, the Bonds, but nothing contained in the Indenture will relieve any supervisor, officer or

employee of the District from the performance of any official duty provided by any applicable provision of law or the Indenture.

Notice by Mail. Any notice required to be given under the Indenture by Mail to Owners will be given by Mailing a copy of such notice to such Owners at their addresses appearing in the Bond Register.

Funds. Any Fund required to be established and maintained in the Indenture by the Trustee may be established and maintained in the account records of the Trustee 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 all such Funds will at all times be maintained in accordance with sound industry practice and with due regard for the protection of the security of the Bonds and the rights of the Owners.

Liquidity Provider. Except as otherwise provided in this caption, so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, the Liquidity Provider will be deemed to be the owner of the Bonds for the purpose of all consents, approvals, waivers or the institution of any action and the direction of remedies. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Liquidity Provider will be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Liquidity Provider during any time in which no Liquidity Facility is in effect and no amounts are owing to the Liquidity Provider, or such Liquidity Provider has wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, or after the Liquidity Facility will at any time for any reason cease to be valid and binding on the Liquidity Provider, or while such Liquidity Provider is denying further liability or obligation under the Liquidity Facility (unless such Liquidity Facility has been fully drawn or to the extent that the conditions to payment thereunder have not been fully satisfied) or after such Liquidity Provider has rescinded, repudiated or terminated the Liquidity Facility and no amounts are owing to the Liquidity Provider; provided, however, that nothing contained in this caption will limit the rights of the Liquidity Provider as an Owner of Liquidity Provider-Owned Bonds.

All provisions in the Indenture relating to the Liquidity Provider will be of no force and effect with respect to a particular Liquidity Provider if the applicable Liquidity Facility and Reimbursement Agreement are not in effect, there are no related Liquidity Provider-Owned Bonds and all amounts owing to such Liquidity Provider under the applicable Reimbursement Agreement have been paid.

California Law. The Indenture will be construed and governed in accordance with the laws of the State.

Payment Due on Non-Business Days. If a payment date is not a Business Day, then payment may be made on the next Business Day, and interest will accrue for the intervening period at the rate prevailing with respect to the payment on the payment date.

Notices to Rating Agencies. The Trustee will give immediate notice to each Rating Agency in the event:

1. The Trustee, Paying Agent or Remarketing Agent resigns or is replaced.
2. The Indenture is amended or supplemented or, to the actual knowledge of the Trustee, a Reimbursement Agreement is entered into or amended.

3. To the actual knowledge of the Trustee, a Liquidity Facility is entered into, renewed, extended, expires or is terminated.

4. The Bonds are converted from one Mode to another Mode or when the Bonds are in the Term Rate Mode, an Adjustment Period longer than three years is established.

5. The substitution of a new Liquidity Facility for any then current Liquidity Facility has occurred.

6. There has been a redemption (other than mandatory redemption pursuant to the Indenture) or defeasance of the Bonds.

7. The Bonds have been accelerated pursuant to the Indenture.

8. A written notice is received by the Trustee from a Liquidity Provider pursuant to clause (v) of the definition of "Mandatory Purchase Date."

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APPENDIX D

CO-BOND COUNSEL OPINIONS

Orrick, Herrington & Sutcliffe LLP and Bowie, Arneson, Wiles & Giannone, Co-Bond Counsel to the District, rendered the following final approving opinions dated April 15, 2011 (the “2011 Opinions”) in connection with the initial issuance of the Series 2011A-1 Bonds. Co-Bond Counsel have made no attempt to update or reaffirm the 2011 Opinions in connection with this Remarketing Statement or the remarketing of the Series 2011A-1 Bonds.

[SEE ATTACHED]

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April 15, 2011

Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, California 92618

Bonds of Irvine Ranch Water District,
Refunding Series 2011A-1 and
Refunding Series 2011A-2
(Final Opinion)

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Irvine Ranch Water District (the "District") in connection with the issuance by the District of \$60,545,000 aggregate principal amount of its Bonds of Irvine Ranch Water District, Refunding Series 2011A-1 (the "Series 2011A-1 Bonds") and \$40,370,000 aggregate principal amount of its Bonds of Irvine Ranch Water District, Refunding Series 2011A-2 (the "Series 2011A-2 Bonds" and, together with the Series 2011A-1 Bonds, the "Series 2011A Bonds"). The Series 2011A-1 Bonds are issued pursuant to Division 13 of the California Water Code, Section 53541 of the California Government Code and an Indenture of Trust, dated as of April 1, 2011 (the "Series 2011A-1 Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "2011A-1 Trustee"). The Series 2011A-2 Bonds are issued pursuant Division 13 of the California Water Code, Section 53541 of the California Government Code and an Indenture of Trust, dated as of April 1, 2011 (the "Series 2011A-2 Indenture" and, together with the Series 2011A-1 Indenture, the "Indentures"), by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "2011A-2 Trustee" and, together with the 2011A-1 Trustee, the "Trustees"). The Series 2011A Bonds represent the consolidated, several general obligations of Improvement District Nos. 105, 113, 213 and 250 (the "Improvement Districts"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indentures.

In such connection, we have reviewed the Indentures, the Tax Certificate of the District, dated the date hereof, relating to the Series 2011A Bonds (the "Tax Certificate"), opinions of counsel to the District and the Trustees, certificates of the District, the Trustees and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.



O R R I C K

Irvine Ranch Water District

April 15, 2011

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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 opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2011A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indentures 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 Series 2011A Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2011A Bonds, the Indentures 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 governmental entities such as the District in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or subject to the lien of the Indentures or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2011A 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 Series 2011A Bonds constitute valid and binding obligations of the District. The Series 2011A Bonds are obligations of the District payable from the sources specified in the



ORRICK

Irvine Ranch Water District

April 15, 2011

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applicable Indenture and are not obligations of the State of California or any political subdivision thereof (other than the District and the Improvement Districts).

2. The Indentures have been duly executed and delivered by, and constitute the valid and binding obligations of, the District.

3. Interest on the Series 2011A 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 Series 2011A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Series 2011A Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per 

BOWIE, ARNESON, WILES & GIANNONE

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
ATTORNEYS AT LAW

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April 15, 2011

*A PROFESSIONAL CORPORATION

Irvine Ranch Water District
15600 Sand Canyon Avenue
Irvine, California

Re: Bonds of Irvine Ranch Water District,
Refunding Series 2011A-1 and Refunding Series 2011A-2
Final Opinion

Ladies and Gentlemen:

We have acted as Co-Bond Counsel to the Irvine Ranch Water District (the "District") in connection with the issuance by the District of \$60,545,000 aggregate principal amount of its Bonds of Irvine Ranch Water District, Refunding Series 2011A-1 (the "Series 2011A-1 Bonds") and \$40,370,000 aggregate principal amount of its Bonds of Irvine Ranch Water District, Refunding Series 2011A-2 (the "Series 2011A-2 Bonds" and, together with the Series 2011A-1 Bonds, the "Series 2011A Bonds"). The Series 2011A-1 Bonds are issued pursuant to Division 13 of the California Water Code, Section 53541 of the California Government Code and an Indenture of Trust, dated as of April 1, 2011 (the "Series 2011A-1 Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "2011A-1 Trustee"). The Series 2011A-2 Bonds are issued pursuant to Division 13 of the California Water Code, Section 53541 of the California Government Code and an Indenture of Trust, dated as of April 1, 2011 (the "Series 2011A-2 Indenture" and, together with the Series 2011A-1 Indenture, the "Indentures"), by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "2011A-2 Trustee" and, together with the 2011A-1 Trustee, the "Trustees"). The Series 2011A Bonds represent the consolidated, several general obligations of Improvement District Nos. 105, 113, 213 and 250 (the "Improvement Districts"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indentures.

In such connection, we have reviewed the Indentures, the Tax Certificate of the District, dated the date hereof, relating to the Series 2011A Bonds (the "Tax Certificate"), opinions of counsel to the District and the Trustees, certificates of the District, the Trustees and others, 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 opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2011A Bonds has concluded with their issuance, and

BOWIE, ARNESON, WILES & GIANNONE

Irvine Ranch Water District

April 15, 2011

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we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indentures 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 Series 2011A Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2011A Bonds, the Indentures 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 governmental entities such as the District in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or subject to the lien of the Indentures or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2011A 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 Series 2011A Bonds constitute valid and binding obligations of the District. The Series 2011A Bonds are obligations of the District payable from the sources specified in the applicable Indenture and are not obligations of the State of California or any political subdivision thereof (other than the District and the Improvement Districts).
2. The Indentures have been duly executed and delivered by, and constitute the valid and binding obligations of, the District.
3. Interest on the Series 2011A 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 Series 2011A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Series 2011A Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2011A Bonds.

Very truly yours,

Bowie, Arneson, Wiles & Giannone

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APPENDIX E

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2011A-1 Bonds, payment of principal, premium, if any, accreted value, if any, and interest with respect to on the Series 2011A-1 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2011A-1 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, acts as securities depository for the Series 2011A-1 Bonds. The Series 2011A-1 Bonds are 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 was issued for each maturity of the Series 2011A-1 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2011A-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011A-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2011A-1 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 Series 2011A-1 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in Series 2011A-1 Bonds, except in the event that use of the book-entry system for the Series 2011A-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011A-1 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 Series 2011A-1 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 Series 2011A-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011A-1 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holding on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2011A-1 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011A-1 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011A-1 Bond documents. For example, Beneficial Owners of Series 2011A-1 Bonds may wish to ascertain that the nominee holding the Series 2011A-1 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011A-1 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2011A-1 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2011A-1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments with respect to the Series 2011A-1 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2011A-1 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 2011A-1 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2011A-1 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2011A-1 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2011A-1 Bonds are transferred by Direct Participants or DTC's records and followed by book-entry credit of tendered Series 2011A-1 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2011A-1 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011A-1 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2011A-1 Bonds will be printed and delivered.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

The District entered into a Continuing Disclosure Certificate in the following form in connection with the initial issuance of the Series 2011A-1 Bonds on April 15, 2011:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Irvine Ranch Water District (the “District”) in connection with the execution and delivery of \$60,545,000 Bonds of Irvine Ranch Water District, Refunding Series 2011A-1 (the “Series 2011A-1 Bonds”) and the \$40,370,000 Bonds of Irvine Ranch Water District, Refunding Series 2011A-2 (the “Series 2011A-2 Bonds,” and together with the Series 2011A-1 Bonds, the “Series 2011A Bonds”) constituting the consolidated, several general obligations of Improvement District Nos. 105, 113, 213 and 250 (collectively, the “Improvement Districts”). The Series 2011A-1 Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2011 (the “Series 2011A-1 Indenture of Trust”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee, and the Series 2011A-2 Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2011 (the “Series 2011A-2 Indenture of Trust,” and together with the Series 2011A-1 Indenture of Trust, the “Indentures of Trust”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The District covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indentures of Trust, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term “Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement of the District dated April 12, 2011 delivered in connection with the issuance of the Bonds.

Participating Underwriter. The term “Participating Underwriter” means the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The District shall provide not later than 270 days following the end of its Fiscal Year (commencing with the Fiscal Year 2011) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in substantially the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Principal amount of the Bonds outstanding.

(c) An update of the information in the following tables and/or captions in Appendix A—“IRVINE RANCH WATER DISTRICT” in the Official Statement:

1. “Outstanding Indebtedness” on page A-7;
2. IRVINE RANCH WATER DISTRICT Historic Water Supply In Acre Feet Per Year” under the caption “WATER SUPPLY—Historic and Projected Water Supply” on page A-19;
3. “THE WATER SYSTEM—Historic Water Connections” on page A-21;
4. “THE WATER SYSTEM—Historic Water Deliveries” on page A-22;
5. “THE WATER SYSTEM—Water System Rates and Charges” on page A-24;
6. “THE SEWER SYSTEM—Historic Sewer and Recycled Water Connections” on page A-26;
7. “THE SEWER SYSTEM—Historic Sewer Daily Average Flow” on page A-27;
8. “THE SEWER SYSTEM—Sewer System Rates and Charges” on page A-30;
9. “WATER AND SEWER SYSTEM FINANCIAL INFORMATION—Historic Operating Results and Debt Service Coverage” on page A-33; and
10. An update of the following tables for each Improvement District:
 - (i) Assessed Valuations (Land Only); provided that only the total assessed values shall be updated;

- (ii) Assessed Valuation and Parcels by Land Use; and
- (iii) Largest Local Secured Taxpayers.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission; provided that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

- 1. principal and interest payment delinquencies;
- 2. unscheduled draws on debt service reserves reflecting financial difficulties;
- 3. unscheduled draws on credit enhancements reflecting financial difficulties;
- 4. substitution of credit or liquidity providers, or their failure to perform;
- 5. adverse tax opinions or 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;
- 6. defeasances;
- 7. tender offers;
- 8. ratings changes; and
- 9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- 1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
- 2. appointment of a successor or additional trustee or the change of the name of a trustee;

3. non-payment related defaults;
4. modifications to the rights of Bondholders;
5. notices of redemption; and
6. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in subsection (b), the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Cash and Investments. Upon request, the District shall provide on a quarterly basis to any person the most recently available Cash and Investment Summary as prepared for the Finance and Personnel Committee of the Board of Directors of the District.

7. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

8. Termination of Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indentures of Trust, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: April 15, 2011

IRVINE RANCH WATER DISTRICT

By: _____
Its: Treasurer

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272